How a flooring strategy might help in your pursuit of a secure financial future

(worksheet included!)

Retirement is more than just a phase of life; it's a new beginning that requires as much planning as the career you're leaving behind. While diligently saving for retirement is crucial, there's a less talked about yet equally important aspect: Planning the spending you'll be doing after you've clocked out for the last time. In today's uncertain world, planning your finances post-retirement is critical to maintaining long-term financial stability and peace of mind.

Promote retirement confidence by designing your own safety net

We believe one of the keys to a worry-free retirement lies in proactive planning. Instead of just focusing on achieving a specific number in retirement savings, you'll want to consider planning for your retirement spending.

A cornerstone of such planning is the "flooring strategy," which starts with ensuring a steady fixed income stream to cover your basic recurring expenses. Having a financial safety net will help safeguard against unpredictable stock market swings or unexpected economic events. When you've planned for essential costs, you might feel better about investing in the stock market with some of your retirement savings.

In the following sections, we'll explore how this approach can be your blueprint for a financially secure retirement.

Calculating your essential spending needs

First, focus on quantifying your annual living expenses. What will your day-to-day costs be once you retire? Those are the expenses you will want to cover with guaranteed income sources. Usually, these can be broken out into the following five categories:

Expense	Average annual expenditure on:
Food	Groceries and restaurants
Housing	Rent or mortgage payments, property taxes, maintenance, utilities and household supplies
Transportation	Average annual expenditure on transportation, including vehicle purchases, gasoline, insurance, repairs and public transportation
Healthcare	Insurance premiums, medical services and prescription drugs
Taxes	Federal, state and local

(You'll find a worksheet at the end of this document to help calculate all this.)

Determining your essential spending gap

Your next step is figuring out how to cover these costs. That way, the money can be there for you month in and month out.

In an ideal world, your Social Security and any fixed pension payments would cover or exceed your essential spending needs. Today that rarely happens. Employer pensions are no longer common, and, while Social Security is still relevant, it will likely only contribute partially to your budget.

So now, add your expected Social Security payments plus any other pension or fixed payments you can expect in retirement. Then, subtract your estimated essential expenses. That number represents your annual essential spending gap.

Essential spending needs − **Social Security and pension** = **Essential spending gap**

Minding the gap with annuities

Traditional financial planning is often centered on an estimated life expectancy number. But what happens if you live longer than average? That's "longevity risk," and it's a risk that keeps many retirees up at night.[1]

Fortunately, there is a way to hedge that longevity risk: with annuities. Annuities are financial products created specifically to address this challenge. With the flooring strategy, you will plan to purchase an annuity with a lifetime income guarantee that is intended to cover any remaining portion of your essential spending gap.

Example: How using an annuity can fix your spending gap

Let's see how this works in an example.

Essential spending needs: $51,786[2] − **Social Security and pension: $19,884[2]** = **Essential spending gap: $31,902**

According to consumer data, the average annual essential spending need is $51,786.[2] The average monthly Social Security benefit is approximately $1,657, or $19,884 annually.[2]

We'll assume that the average household does not have an employer pension or other fixed income sources. So, subtracting Social Security from the annual spending requirement leaves an essential spending gap of $31,902 per year.

The household in our example would then seek to cover the $31,902 spending gap by purchasing an annuity that includes a lifetime income guarantee. This will provide a steady and protected lifelong income stream, typically through monthly payments.

Steps to create your own flooring strategy

1. Research and calculate your annual essential expenses.
2. Determine your Social Security benefit amount (which you can do online) as well as any other sources of income, such as a workplace pension.
3. Subtract your total annual expenses from your expected fixed yearly income sources. This number represents your annual essential spending gap.
4. Don't forget to consult your tax professional to evaluate any tax implications to ensure you structure this as tax-efficiently as possible. Also, be sure to discuss a plan with your advisor to keep sufficient emergency funds in a suitable format to meet any short-term unexpected needs.

1 Kathryn Pomroy. 2023. "Most Americans Expect to Outlive Their Money in Retirement. Will You?" Kiplinger.com. October 5, 2023. https://www.kiplinger.com/retirement/retirement-planning/outlive-your-money-in-retirement#:~:text=According%20to%20the%20survey%2C%20the. **2** https://www.bls.gov/opub/reports/consumer-expenditures/2021/home.html.

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Your flooring strategy worksheet

Taxes	
Federal	$
State	$
Local	$
Total taxes	**$**
Household essentials	
Mortgage/rent	$
Property taxes	$
Home/renter's insurance	$
Home maintenance repairs	$
Electricity	$
Oil/gas	$
Water/garbage/sewer	$
Telephone/cell phone	$
Cable/internet	$
Other household essentials	$
Total	**$**
Automobile and transportation	
Loan/lease payments	$
Maintenance repairs	$
Gasoline	$
License/registration	$
Auto insurance	$
Public transportation	$
Total	**$**
Personal care	
Food	$
Clothing	$
Grooming (hair, dry cleaning, etc.)	$
Other personal care	$
Total	**$**

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Your flooring strategy worksheet

Healthcare	
Health insurance	$
Life insurance	$
Long-term care insurance	$
Disability insurance	$
Dental insurance	$
Vision insurance	$
Other	$
Total	**$**
Guaranteed monthly income	
Social Security	$
Pension(s)	$
Annuities	$
Total	**$**
Other sources	
Savings account	$
Investments	$
Income From part-time job or business	$
Other income Rental properties or inheritance	$
Total non-guaranteed income	**$**
Total guaranteed income	**$**

Flooring strategy	
Total monthly essential spending	**$**
– Social Security and pension income	**$**
= Spending gap	**$**

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