RetireTrack^SM Estimated Income Case Study

Purpose:

To describe how the Estimated Income projection in RetireTrack is affected by the inclusion of annual post-retirement sources of income, such as pensions or Social Security

Assumptions:

	SCENARIO 1	SCENARIO 2
Salary	$ 52,000	$ 52,000
403(b) Balance	$ 70,000	$ 70,000
IRA Balance	$ 45,000	$ 45,000
Age	55	55
Gender	Male	Male
Savings Rate	3%	3%
Employer Contribution	10%	10%
Social Security (Est.)	$ 21,912	$ 21,912
Pension	$ -	$ 28,800
Retirement Age	65	65

Results:

	SCENARIO 1	SCENARIO 2
Estimated Income	$ 40,317	$ 63,045

The two scenarios represent the same hypothetical plan participant. The only difference is that in Scenario 1, there is no pension, whereas in scenario 2, there is an annual pension of $28,800.

An additional source of retirement income increases the total Estimated Income projection. The Estimated Income in Scenario 2 exceeds the amount in Scenario 1 by $22,728, which is less than the amount of the annual pension ($28,800). This can be explained by two factors: taxation and inflation.

First, the pension is taxable, so the payment amount is reduced by tax each year. This results in a relatively smaller increase in the Estimated Income, which is calculated and presented in after-tax terms. Second, the pension amount remains fixed once payments begin. Inflation, however, erodes the value of this fixed amount in terms of today's dollars. This results in a relatively smaller increase in the Estimated Income, which is calculated and presented in terms of today's dollars.[1]

IMPORTANT: The projections generated by the RetireTrack simulation model regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and do not guarantee future results. Visit www.divinvest.com for more information about these projections.

[1] You may recognize this as a "present value" calculation.

