STRATEGIC GUIDE

The Retirement Income Gap

Most people approaching retirement have done the hard part. Fewer know whether what they built will actually sustain them.

Retirement Readiness

Tyler Snyder | Grady Financial Network

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The Gap Nobody Talks About

You have spent years building wealth. Saving in retirement accounts. Growing a career, a business, or both. You have done the hard part. But if someone asked you right now, with confidence, whether your money will last 30 years in retirement, could you answer?

Most people cannot. Not because they have not saved enough, but because they have never run the numbers in a way that accounts for taxes, inflation, healthcare, withdrawal sequencing, and the reality that assumptions about future income are just that.

That gap between what you think you know and what you actually know is where the biggest retirement mistakes happen.

The retirement income gap is the difference between what you will need to spend each year in retirement and what your income sources will reliably provide. It sounds simple. It is not.

Here is why most estimates miss the mark:

- They use a single withdrawal rate (like 4%) without accounting for tax drag on different account types
- They assume a smooth, linear return on investments when real markets are anything but smooth
- They underestimate healthcare costs, especially the years between retirement and Medicare at 65
- They assume future income sources (a business sale, an inheritance, continued part-time work) at full value without discounting for uncertainty
- They ignore the first five years, when retirees typically spend more, not less, than they did while working

> **KEY INSIGHT**
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> *The average retiree overestimates their retirement readiness because they confuse net worth with spendable income. A $3 million net worth does not mean $3 million in retirement income. After taxes, inflation, and sequence risk, the real number is often 40 to 60 percent of what they expected.*

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Five Questions That Reveal Your Gap

These are not trick questions. They are the same questions a fiduciary advisor would ask in a comprehensive retirement income review. If you cannot answer all five with specific numbers, you have a gap worth addressing.

Question 1: What is your annual spending number?

Not a guess. Not a range. The actual amount you spend each year, broken into fixed costs and discretionary spending. If personal and business expenses have been blurred together, this number can be surprisingly hard to pin down. Even salaried professionals tend to underestimate discretionary spending by 15 to 20 percent.

Question 2: What will your guaranteed income be?

Add up Social Security (at your planned claiming age), any pensions, rental income, and other sources that show up regardless of market conditions. This is your income floor. The distance between this floor and your spending number is your gap.

Question 3: How much of your net worth is actually liquid?

A business valued at $2 million is not the same as $2 million in a brokerage account. Real estate equity is not liquid. Retirement accounts come with tax obligations on every dollar withdrawn. What can you actually spend, after taxes, without selling something that takes months to close?

Question 4: What is your tax rate in retirement?

Most people assume their taxes will drop in retirement. For anyone with significant traditional 401(k) or IRA balances, required minimum distributions starting at age 73 can push you into the same bracket you were in while working. Add Social Security taxation and Medicare surcharges and the picture changes.

Question 5: What happens if one thing goes wrong?

A market downturn in your first three years of retirement. A business sale that falls through or an expected income stream that disappears. A health event that adds $100,000 in costs. A spouse who needs long-term care. Your plan needs to absorb at least one of these without collapsing.

KEY INSIGHT

If you answered two or more of these with "I am not sure," you are in the majority. But the majority of retirees also leave significant money on the table through poor withdrawal sequencing, missed Roth conversion windows, and Social Security claiming mistakes. The gap is fixable. You just have to see it first.

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Where the Money Quietly Disappears

Even well-prepared retirees lose money to things they never planned for. Not catastrophic losses. Slow, compounding leaks that drain six figures over 20 years.

Tax-inefficient withdrawals

Drawing from the wrong accounts in the wrong order can cost tens of thousands per year in unnecessary taxes. Most retirees default to taking money from their 401(k) first because it is the largest account. That is often the most expensive choice.

The Roth conversion window you did not use

The years between retirement and age 73 are often the lowest-income years you will ever have. Converting traditional retirement assets to Roth during this window can save hundreds of thousands in lifetime taxes. Once RMDs begin, the window closes.

Claiming Social Security too early

Every year you delay Social Security past 62 increases your benefit by 6 to 8 percent per year. That is a guaranteed, inflation-adjusted return. For a married couple, the higher earner delaying to 70 is often the single most valuable financial decision in retirement, because it protects the surviving spouse for life.

Investment fees you stopped noticing

A 1 percent difference in annual fees on a $1 million portfolio is $10,000 per year. Over 20 years, with compounding, that difference exceeds $200,000. Most people have not reviewed their fee structure since they opened the account.

No plan for the first bad year

If you retire and the market drops 25 percent in year one, and you withdraw from your portfolio to cover expenses, you lock in those losses permanently. This is called sequence-of-returns risk, and it is the single biggest threat to a retirement portfolio. A bucket strategy or cash reserve solves this, but only if it is in place before you need it.

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What a Real Retirement Income Plan Looks Like

A retirement income plan is not a portfolio allocation. It is not a Monte Carlo simulation. It is a coordinated strategy that answers one question: where does each dollar of income come from, each year, for the rest of your life?

A complete plan addresses:

- Your specific spending need, adjusted for inflation and healthcare
- Which accounts to draw from, in which order, in which years
- When to claim Social Security and how to coordinate with a spouse
- Roth conversion timing to minimize lifetime taxes
- A cash reserve strategy to protect against early market downturns
- A contingency plan for healthcare costs, long-term care, or an income disruption
- Estate and legacy positioning so your plan works for the next generation too

FOR BUSINESS OWNERS

For business owners, the plan also needs to address exit-to-income coordination: how the proceeds of a business sale integrate with your other assets, how to stage the transition, and how to manage the tax event of a sale alongside your broader withdrawal strategy. If your retirement depends on a single exit event at a specific price, you have a single-point-of-failure worth addressing before you need the money.

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Your Next Step

You do not need to overhaul your financial life. You need to answer the five questions above with real numbers. If you can, you are ahead of most people. If you cannot, a single conversation with the right advisor can close that gap faster than you think.

A complimentary retirement income review takes about 30 minutes. You will walk away knowing if anything needs to change.

What a Fiduciary Review Covers

A fiduciary advisor is legally required to act in your best interest. A comprehensive review typically examines:

- Income durability across market cycles and inflation scenarios
- Tax sequencing efficiency across all account types
- Concentration exposure, including business-dependent retirement plans
- Social Security coordination and claiming optimization
- Single-point-of-failure risk in your overall retirement strategy

No obligation. No product pitch. Just clarity.

Ready to Find Your Gap?

Schedule a complimentary retirement income review. No obligation. No product pitch. Just clarity.

A fiduciary review covers: Income durability across market cycles | Tax sequencing efficiency | Concentration exposure | Social Security optimization | Single-point-of-failure risk

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