Complete Guide

Retirement Income Planner: Build a Paycheck You Can't Outlive

A retirement income plan is not a portfolio statement — it is a cash flow model that answers a specific question: will the money last? This planner walks you through calculating every income source, quantifying the gap your portfolio must close, stress-testing that number for inflation and longevity, planning Roth conversions before RMDs take away your flexibility, estimating pre-Medicare healthcare costs, and setting up an annual review process that keeps the plan accurate as circumstances change. By the end, you will have a working income model with real numbers, not a collection of general guidelines.

1. Foundation

The fundamental structure of a retirement income plan is a cash flow equation: total income from all sources minus total annual spending, with any gap funded from the portfolio at a sustainable withdrawal rate. Every complexity — tax efficiency, Roth conversions, healthcare bridges, inflation adjustments — is a layer on top of that equation. The planner works by building each component accurately before combining them.

Your total retirement income comes from more sources than most people track in one place. Social Security is usually the largest guaranteed income source, but the benefit varies enormously based on claiming age. A worker with a $2,500 Full Retirement Age benefit receives $1,750 at 62 (70% of FRA) and $3,100 at 70 (124% of FRA). That $1,350 monthly difference — $16,200 per year — is entirely the result of the claiming decision. Pensions, if you have one, provide a fixed or inflation-adjusted monthly payment that functions similarly to Social Security. Rental income, part-time work, and annuity payments are also income sources. Until you have all of these numbers written

down as annual figures, you cannot calculate the income gap, and the income gap is the only number that tells you how much portfolio withdrawal you actually need.

The income-gap formula is the backbone of the entire planner. Annual spending target minus total guaranteed annual income equals the annual portfolio withdrawal needed. If your spending target is $78,000 and guaranteed income (Social Security at 67, pension, small rental) totals $44,000, the gap is $34,000. To determine whether your portfolio can sustain that gap, divide $34,000 by your planned portfolio withdrawal rate: at 4.0%, you need $850,000. At 3.5%, you need about $971,000. At 3.0%, you need $1,133,000. This formula immediately translates income planning decisions — like whether to delay Social Security or reduce spending — into hard portfolio-size requirements, which makes tradeoffs visible and actionable.

Inflation is the hidden risk that degrades every fixed-income source over time. An $80,000 annual budget today requires about $108,000 in 15 years at 2% inflation, $119,000 at 2.5%, and $131,000 at 3%. Social Security's COLA partially compensates, but most pensions do not adjust for inflation, and fixed annuity payments lose purchasing power steadily. The planner addresses inflation by projecting both spending and income forward at different rates, calculating the real (inflation-adjusted) gap at ages 70, 75, 80, and 85, and confirming that the portfolio can still cover an expanding gap in later years when market sequence risk is lower but longevity risk is higher. Planning only for today's dollar costs is one of the most common and most expensive planning errors.

2. Step-by-Step System

1

Compile all income sources with annual amounts and start dates

Pull every income source with its annual amount and the year it begins. For Social Security, get your estimate from ssa.gov/myaccount — record the benefit at 62, at FRA (66 or 67 depending on birth year), and at 70. For a married couple, do this for both spouses. For pensions, contact HR or the plan administrator for the exact monthly amount at normal retirement age, the survivor benefit options and their cost, and whether there is any cost-of-living adjustment. For part-time or consulting work, estimate conservatively: a realistic years-active window and annual earnings, not the best-case scenario. For rentals, use net income after property tax, insurance, maintenance reserve (typically 1% of property value per year), and vacancy. Build a table with source name, annual amount, start year, end year (if applicable), and inflation adjustment. This table is the foundation; every subsequent calculation depends on it being accurate.

2

Calculate the income gap and required portfolio size

Add all guaranteed income sources active at your planned retirement date to get total guaranteed annual income. Separately, build your retirement spending budget by starting with current spending, removing expenses that disappear at retirement (savings contributions, commuting costs, work-related clothing), and adding expenses that emerge (travel, healthcare, more restaurant meals). Many retirees spend somewhat less in real dollars than they did while working, but the healthcare line typically increases, and discretionary categories often expand in the first decade of retirement. Once you have both numbers, calculate: income gap = spending target − total guaranteed income. Divide that gap by your target withdrawal rate to get required portfolio size. If the gap is $36,000 and the rate is 3.75%, the required portfolio is $960,000. Write down three scenarios — 3%, 3.5%, and 4% — so you see the range. Then compare the required portfolio to your current portfolio and growth projection to determine whether you are on track or need to adjust timing, spending, or income sources.

3

Run the sustainability check with inflation adjustments

A static income gap calculation only tells you about year one. A sustainability check projects cash flows forward 30 years using realistic inflation and return assumptions. For each year, increase the spending target by your chosen inflation rate (2–3% is reasonable). Increase Social Security income by the historical average COLA (roughly 2.3%). Keep pension and annuity income flat (most have no adjustment). Calculate the portfolio withdrawal needed in each year as the growing gap. Then model portfolio balance in each year assuming a chosen real return (typically 3–5% real after inflation). Check whether the portfolio reaches zero before the plan horizon — a 35-year retirement at 4% with 3% inflation and a 60/40 portfolio has a failure rate of roughly 5–10% in historical simulations, which many planners consider acceptable. A more aggressive spending level, a lower-return assumption, or an earlier retirement date increases failure probability. Document the scenario that concerns you most and note what contingency — a part-time income period, a spending reduction, or delaying Social Security — would improve it most materially.

4

Plan Roth conversions during the pre-RMD window

If you retire before age 73 with traditional IRA or 401(k) assets, you have a window to convert some of those balances to Roth at your current tax rate, which is often lower than the rate you will face when RMDs begin. Start by estimating your traditional account balance at age 73 using current balance × (1.06)^(73−current age). Calculate the RMD in year one using the IRS Uniform Lifetime Table (balance ÷ 26.5 at age 73). If the projected RMD stacks on top of Social Security and other income to push you into the 22% or 24% bracket, conversion at 12% today represents a direct tax reduction. Each year between now and age 73, estimate how much you can convert while filling your current bracket to its top without crossing into the next. Pay the conversion tax from non-IRA cash — paying from the converting account reduces the effective amount moved to Roth. Document the conversion amount, the bracket topped, and the projected benefit in terms of reduced future RMDs. Revisit the conversion schedule each fall when you know your actual year-to-date income.

5

Estimate pre-Medicare healthcare costs explicitly

Medicare eligibility begins at 65, which means anyone who retires before 65 needs a plan for health insurance in the gap years. The options and costs vary significantly. COBRA from a former employer can continue existing coverage for up to 18 months but typically costs $600–$1,800 per month for family coverage because you pay the full premium plus a 2% administrative fee. ACA marketplace plans may be substantially subsidized if your income is below 400% of the federal poverty level — for 2024, a single person earning under $58,320 qualifies for subsidies, and a couple under $78,880. But Roth conversions count as income for ACA subsidy calculations, which creates a direct tradeoff: converting to Roth in low-income years may cost you ACA subsidies. Model the net cost including both the conversion tax benefit and any subsidy reduction before deciding. At minimum, budget $4,800–$18,000 per year per person for healthcare in pre-Medicare years and plan for that cost to continue until age 65, regardless of how you source the coverage.

6

Set up the annual plan review process

A retirement income plan is not accurate on day one and ignored forever — it is a model that requires annual calibration. Set one review date per year, ideally in October or November when you know the year's actual income and before year-end tax decisions are due. The annual review should update five numbers: actual annual spending versus budget, total portfolio balance and allocation, Social Security benefit estimates (as your earnings history changes through age 60), any change in pension or healthcare costs, and your remaining plan horizon based on current age. Compare the updated income gap to the prior year and note whether the gap widened (due to inflation, higher spending, or lower portfolio) or narrowed (due to better returns, lower spending, or a new income source). If the gap widened materially — more than 10% from the prior year — identify the specific cause and the specific response. Vague awareness of a problem is not a plan. An annual review that documents the delta, names the cause, and sets a response rule is the difference between a maintained plan and a deteriorating one.

3. Key Worksheets & Checklists

Complete these worksheets before finalizing any retirement income decision. The income map and gap calculation are the minimum. The sustainability tracker requires projecting forward — do not skip it because the projection is uncertain; the uncertainty itself is information that drives planning choices.

Retirement Income Gap Worksheet

Annual spending target	Current spending adjusted for retirement: subtract savings contributions and work costs, add healthcare and discretionary increases.
Social Security — own benefit	Annual amount at your planned claiming age. Compare age-62, FRA, and age-70 side by side.
Social Security — spouse benefit	Annual amount at planned claiming age. Note survivor benefit at higher earner's age-70 amount.
Pension income (annual)	Gross monthly × 12. Survivor benefit option and its cost deducted.
Rental income (net)	Annual rents minus taxes, insurance, maintenance reserve, vacancy, and management.
Part-time / consulting income	Conservative annual estimate. Note expected years active and planned wind-down date.
Total guaranteed income	Sum of all income sources active at retirement date.
Annual portfolio gap	Spending target minus total guaranteed income.
Required portfolio at 4.0%	Portfolio gap ÷ 0.04. Also calculate at 3.5% and 3.0%.
Current portfolio balance	All retirement accounts plus taxable brokerage. Note traditional vs Roth split.
Portfolio gap vs target	Required portfolio minus current portfolio. Positive = still accumulating needed; zero or negative = on track.

Inflation Projection — Spending vs Income

Age / Year	Spending (2% inflation)	SS Income (2.3% COLA)	Other Guaranteed	Portfolio Gap
Retirement year	Base spending target	SS benefit at claimed age	Pension + rental	Spending − total income
Age 70	Base × 1.02^(70−retire age)	SS × 1.023^years	Fixed (no COLA)	Recalculate gap
Age 75	Base × 1.02^(75−retire age)	SS × 1.023^years	Fixed	Recalculate gap
Age 80	Base × 1.02^(80−retire age)	SS × 1.023^years	Fixed	Recalculate gap
Age 85	Base × 1.02^(85−retire age)	SS × 1.023^years	Fixed	Recalculate gap

Annual Review Checklist

- Update actual annual spending from the prior 12 months of bank and credit card statements.
- Pull current Social Security benefit estimates from ssa.gov (update annually through age 60).
- Recheck total portfolio balance and traditional vs Roth allocation split.
- Recalculate income gap using updated spending and any changed guaranteed income amounts.
- Review whether the Roth conversion amount for the current year still makes sense given actual income to date.
- Verify pre-Medicare healthcare coverage and cost for the coming plan year during open enrollment.
- Model IRMAA exposure if any large Roth conversion or distribution is planned this year.
- Update the plan horizon based on current age and revise the sustainable withdrawal rate if the horizon changed materially.

4. Common Mistakes

Building the plan on one income scenario

Retirement income is not a single deterministic path — it is a range of outcomes determined by claiming ages, market returns, longevity, and inflation. A plan built only on the best-case scenario is not a plan, it is a wish. Run at minimum three withdrawal scenarios: conservative (3% withdrawal rate, 2.5% inflation, 5% real return), base case (3.75%, 2%, 6%), and optimistic (4.25%, 1.5%, 7%). If the plan fails in the conservative scenario, identify the specific lever — delayed Social Security, part-time income, reduced spending — that fixes it. If it only fails in the most pessimistic combination, that may be an acceptable risk with contingency planning.

Forgetting that RMD income may push guaranteed income into a higher bracket

Required Minimum Distributions are ordinary income added on top of Social Security, pension, and any other taxable income. At age 75, an $800,000 traditional IRA requires about a $33,000 RMD. If you already have $52,000 of other income, that RMD pushes total income to $85,000 — solidly into the 22% bracket and potentially above the IRMAA threshold for Medicare. Planning the RMD trajectory at age 60, not 72, allows Roth conversions to reduce it materially. By age 72, the window is largely closed.

Using a fixed spending number without an inflation model

A plan that assumes $80,000 in spending forever will understate future portfolio needs by a wide margin. At 3% annual inflation, $80,000 in year one becomes $107,000 by year 10 and $144,000 by year 20. Without projecting the growing gap — and confirming the portfolio can cover it — the plan appears sustainable in early retirement and deteriorates silently over time. Build the inflation projection into the plan, not as an afterthought.

Treating Roth conversions as optional tax savings instead of RMD reduction

The most important reason to execute Roth conversions is not the current-year tax savings — it is the permanent reduction of traditional account balances that will otherwise generate RMDs whether you need the money or not. A $300,000 Roth conversion over 10 years reduces future RMD obligations by roughly $11,000 to $15,000 per year, which translates directly into lower taxable income, lower Medicare premiums, and more Social Security income taxed at 0% rather than 85% inclusion. The opportunity is time-limited and irreversible once RMDs begin at scale.

5. Next Steps

With your income gap calculated, inflation projection complete, and Roth conversion schedule documented, verify sustainability with a Monte Carlo simulation at Portfolio Visualizer or a historical scenario test at cFIREsim. Use the actual income and withdrawal amounts you calculated here, not generic defaults. If you are within 5 years of retirement, consult a fee-only financial planner (find one at NAPFA.org) who can review the plan holistically. The planner is a framework — the value comes from putting real numbers in every field and revisiting it every year as those numbers change.

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