



RETIREMENT PLANNING

Retirement Income Sources

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RETIREMENT INCOME SOURCES

Retirement Income Sources

- ◆ Social Security benefits
- ◆ Employer retirement plans
- ◆ Individual retirement accounts (IRAs)
- ◆ Personal savings and investments
- ◆ Post-retirement employment

Social Security

- ◆ Social Security retirement benefits provide a basic amount of monthly income, depending on the recipient's earnings history and age when benefits begin.
- ◆ The normal retirement age for Social Security was traditionally 65. Now, the age when the full benefit amount becomes payable increases in stages depending on date of birth.
- ◆ An individual may take a reduced monthly benefit as early as age 62.
- ◆ Benefits are subject to annual cost-of-living adjustments.
- ◆ Benefits are generally nontaxable, but become partially taxable if other income exceeds certain threshold amounts.
- ◆ According to the Social Security Administration, about 40 percent of Social Security recipients pay some taxes on their benefits.



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Employer Retirement Plans and Personal IRAs

- ◆ Defined benefit plans pay a promised monthly benefit to employees, usually at retirement.
- ◆ Defined contribution plans, on the other hand, provide a benefit determined by the individual's account balance at retirement. Common defined contribution plans include 401(k)s, 403(b)s and profit-sharing plans.
- ◆ Individual retirement accounts may be traditional or Roth IRAs. Contributions to traditional IRAs are tax deductible in certain cases, while contributions to Roth IRAs are never deductible.
- ◆ Distributions from traditional IRAs are taxable (in whole or in part) as ordinary income. Distributions from Roth IRAs are generally tax free when requirements are met.

Personal Savings and Investments

- ◆ Traditional savings vehicles include savings accounts, certificates of deposit, money market mutual funds and government savings bonds.
- ◆ Investments include stocks, bonds and mutual funds.
- ◆ Bonds are debt instruments issued by the federal government, state and local governments, and corporations. They may be owned directly or indirectly through mutual funds, investment accounts and trusts.
- ◆ Real estate includes personally owned property and property owned through an entity such as a limited partnership. Retirees may also use the equity in their homes as a source of retirement income, but must keep in mind the drawbacks of borrowing money to pay living expenses.
- ◆ Annuities offer tax-deferred growth and a variety of payout options, including payments guaranteed to last for the annuitant's lifetime or until the death of a second annuitant. All annuity guarantees are subject to the claims-paying ability of the issuing insurance company.



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Post-Retirement Employment

- ◆ Working after retirement is a common way to supplement retirement income, but these earnings come with tax ramifications.
- ◆ Post-retirement earnings are subject to federal, state and local income taxes, as well as Social Security and Medicare taxes.
- ◆ Post-retirement earnings may also boost the retiree's income high enough that Social Security benefits are subject to federal income tax.

The Bottom Line

Numerous sources of potential retirement income are available to those looking toward a comfortable retirement free from financial concerns. The key is to prepare as early as possible and save as much as possible during the working years. Thanks to the power of compounding, each year's income and gains build on prior growth. Therefore, the sooner a retirement strategy begins, the more likely it is that the strategy can achieve targeted goals.



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SUMMARY

CREATING RETIREMENT INCOME

There are four potential sources for retirement income: Social Security, employer retirement plans and IRAs, personal savings and investments, and continued work after retirement.

SOCIAL SECURITY

Social Security benefits are based on a person's earnings history and age when payments begin. Traditionally, the normal retirement age was 65, but under current law it increases in stages depending on date of birth. Payments are subject to annual cost-of-living adjustments.

Social Security retirement benefits are generally nontaxable, although they become partially taxable when a retiree's income (or joint return income) exceeds certain threshold amounts. According to the Social Security Administration, about 40 percent of people receiving Social Security pay some taxes on their benefits.

EMPLOYER PLANS AND IRAS

An employer-sponsored retirement plan may be a defined benefit plan that pays a pre-established monthly benefit to the retiree, or a defined contribution plan, in which the employee's individual account balance at retirement typically determines the retirement benefit.

Individual retirement accounts and annuities (IRAs) may be traditional or Roth IRAs. Contributions to traditional IRAs are tax deductible, accumulate on a tax-deferred basis and are then taxed as ordinary income when received. Roth IRA contributions are made with after-tax dollars, are not deductible, accumulate on a tax-deferred basis and are tax free upon receipt (provided certain requirements are satisfied).



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PERSONAL SAVINGS AND INVESTMENTS

Savings accounts, certificates of deposit, money market mutual funds and government savings bonds are among the most widely used savings vehicles. Investments such as stocks, bonds and mutual funds are also popular. Annuities can also provide supplementary retirement income in fixed or variable amounts over the annuitant's life or the life of a second annuitant, such as a surviving spouse.

REAL ESTATE

Real estate—including personally owned property and property owned in a limited partnership—can also generate retirement income.



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