



RETIREMENT PLANNING

Retirement Income Sources

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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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