

Presented for:

SPJ Members

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## THE *Sources...*

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

## SOCIAL *Security...*

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- ◆ Provides a base amount of monthly income, depending on the person's earnings history and age when benefits begin.
- ◆ The Social Security normal retirement age was traditionally 65. Now, the age at which the full benefit becomes payable increases in stages for people born in 1938 and after, reaching age 67 for those born in 1960 and after.
- ◆ A reduced monthly benefit may be taken as early as age 62.
- ◆ Benefits are subject to annual cost-of-living adjustments.

- ◆ Benefits, while generally nontaxable, become partially taxable if the person's income exceeds certain threshold amounts.
- ◆ According to the Social Security Administration, less than one-third of people who receive Social Security must pay some taxes on their benefits. (*Source: [www.socialsecurity.gov/pubs/10024.html](http://www.socialsecurity.gov/pubs/10024.html).*)

### EMPLOYER RETIREMENT ARRANGEMENTS

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### AND *Personal* IRAs...

- ◆ Defined benefit pensions pay a promised monthly benefit to the retiree.
- ◆ Defined contribution arrangements differ in that the employee's individual account balance at retirement determines the retirement benefit. 401(k), 403(b) and profit-sharing arrangements are prominent forms of the defined contribution approach.
- ◆ 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 may be tax free if certain strict requirements are met.

## PERSONAL SAVINGS AND *Investments...*

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- ◆ Include traditional savings vehicles such as savings accounts, certificates of deposit, money-market mutual funds, and government savings bonds.
- ◆ Investments also 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 limited partnerships and real estate investment trusts (REITs). Retirees may use the equity in their homes as a source of retirement income.
- ◆ 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, based on the claims-paying ability of the insurance company.
- ◆ Precious gems and metals include tangible assets such as personally owned bullion and coins or stock in mining operations.

## POST-RETIREMENT *Employment...*

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- ◆ Includes full or part-time employment to remain active or to supplement retirement income. However, this may be counterproductive in some ways. For example...
  - ▶ Post-retirement earnings are subject to federal, state and local income taxes as well as Social Security and Medicare taxes.
  - ▶ Post-retirement earnings may boost the retiree's income above the threshold at which Social Security benefits become subject to federal income tax (currently \$25,000 for single persons and \$32,000 for married persons filing jointly).

## THE *Bottom Line...*

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Numerous sources of potential retirement income are available to people looking toward a comfortable retirement free from financial concerns. The key is to begin preparations as early as possible during the working years, and to put aside as much as possible. The sooner a retirement strategy begins, the more time the strategy has to achieve its objectives. Each year's income and gains build on prior growth, thanks to the power of compounding.

## SUMMARY

### How is Retirement Income Created?

Individuals fund their retirement income from four potential sources: Social Security retirement benefits, employer retirement plans and IRAs, personal savings and investments, and post-retirement employment.

### Social Security

The Social Security “normal retirement age” is the age at which the full retirement benefit becomes payable. The amount of the benefit depends on the person’s earnings history and his or her age when payments begin. While the normal retirement age was traditionally 65, under current law it increases in stages for persons born in 1938 and after, eventually reaching age 67 for those born in 1960 and after. A reduced monthly benefit may be taken as early as age 62.

Once payments begin, they are subject to annual cost-of-living adjustments. Social Security retirement benefits are generally nontaxable, but become partially taxed if the retiree’s income (or joint return income) climbs above certain threshold amounts.

According to the Social Security Administration, less than one-third of people who receive Social Security must pay some taxes on their benefits. (Source: [www.socialsecurity.gov/pubs/10024.html](http://www.socialsecurity.gov/pubs/10024.html).)

### **Employer Retirement Arrangements and IRAs**

Employer retirement arrangements may take the form of defined benefit pensions, which pay a pre-established monthly benefit to the retiree. A common alternative is a defined contribution approach, which differs in that the employee's individual account balance at retirement determines the retirement benefit. 401(k), 403(b) and profit-sharing arrangements, in which a participant has an individual account balance, are very popular.

Individual Retirement Accounts and Annuities (IRAs) may be "traditional" or "Roth" IRAs. Contributions to traditional IRAs may be tax deductible, while Roth IRA contributions are never deductible.

Distributions from traditional IRAs are in whole or in part taxable as ordinary income. Distributions from Roth IRAs may be federal income tax free if certain strict requirements are met.

### **Personal Retirement Savings**

People preparing for retirement can make use of a wide variety of savings and investment vehicles during their working years.

Among those most widely used are savings accounts, certificates of deposit, money-market mutual funds, and government savings bonds. Investments such as stocks, bonds and mutual funds are also popular. Annuities can provide retirement income—in fixed or variable amounts—over the annuitant’s life or the life of a second annuitant such as a surviving spouse (subject to the claims-paying ability of the company issuing the annuity). Precious gems and metals include personally owned bullion or coins, gemstones, and stock in mining operations.

### **Real Estate**

Real estate can also generate retirement income. It includes personally owned property and property owned through limited partnerships or real estate investment trusts (REITs).

# RETIREMENT INCOME SOURCES



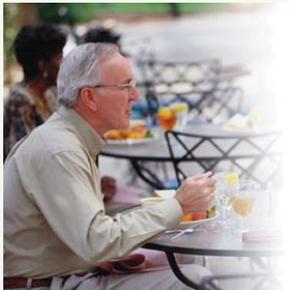
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1. A retiree must reach the full retirement age under Social Security to receive 100% of his/her benefits, but can collect reduced benefits as early as age 62.



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2. Employer retirement strategies and IRAs are other important sources of retirement income.



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4. Some retirees work part time or full time after retirement to provide an additional source of income.



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3. Personal savings and investments produce income that a retiree can liquidate if needed.

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