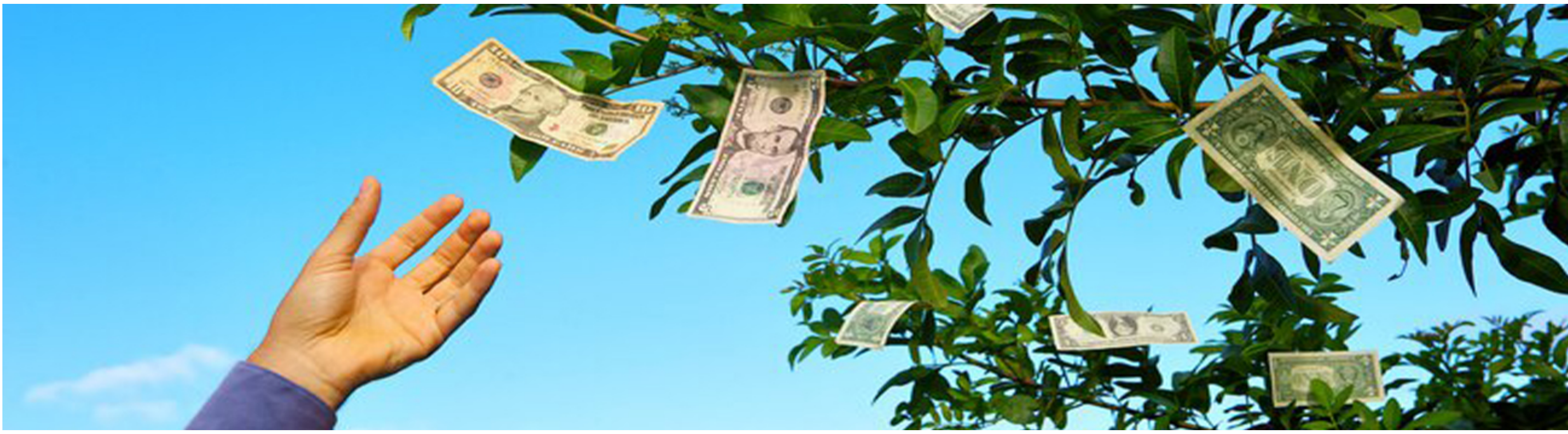

Assessing Your Retirement Resources

How resourceful can you be during your retirement? Determining *where* your retirement money will come from is an integral part of planning for retirement. Most people draw on three main sources of income: **Social Security, employer-sponsored plans,** and **personal retirement savings**. Each offers important resources that can help you fund the lifestyle you seek in retirement.

Social Security

Social Security offers a retirement benefit to workers and their spouses. You can start receiving benefits as early as age 62 (considered early retirement) or wait until you reach the **full retirement age** of 65 to 67 (depending upon your year of birth). The benefits you receive are based on the income you have earned over the course of your life, subject to a maximum amount. You can calculate how much you can expect to receive by visiting the Social Security Administration (SSA) website at www.ssa.gov.

Social Security benefits will most likely fall short of meeting all of your retirement needs. The maximum benefit for a person who retires in 2021 at full retirement age is $3,895 per month; the benefit for a nonworking spouse is considerably less. For most people, Social Security provides only a base level of income. Therefore, you may require a retirement plan that includes additional sources of income.

Employer-Sponsored Plans

Employer-sponsored plans are a staple of retirement income for many individuals. Many employers offer benefit packages that include retirement savings options, such as defined benefit plans, 401(k) plans, 403(b) plans (for nonprofit organizations), and Savings Incentive Match Plans for Employees (SIMPLEs). Here's how the plans work:

With a **defined benefit plan** (also called a traditional pension), retirement benefits are generally based on a variety of factors, including salary, length of service, and a benefit formula that averages the employee's earnings over a prescribed period of years. In some instances, you, as an employee, may make additional contributions. To receive benefits, you generally must be employed for a certain number of years and reach the normal retirement age, typically age 65. When you retire, you may have options as to *how* and *when* you collect your benefits, such as in monthly payments or in one lump sum.

A **401(k) plan**, offered by many private employers, provides you with the opportunity to contribute part of your salary, with restrictions, into a retirement account. Your employer may match your contributions, up to a predetermined percentage and subject to a maximum. For example, if your employer matches your contributions by 50%, for every dollar you put into the fund, your employer will add $.50. In 2021, you can contribute up to $19,500, and those age 50 and over can contribute an additional $6,500. Your contributions are pretax, and any potential earnings are tax deferred, so payment of taxes will not commence until you begin taking distributions. If you withdraw money from your 401(k) before age 59½, you will incur a 10% Federal income tax penalty, except under certain qualifying circumstances (such as death or disability).

A **403(b)** plan is a 401(k)-type plan designed for employees of certain educational and nonprofit organizations. Your contributions are pretax, and potential earnings grow tax deferred. The contribution limit in 2021 is $19,500, with catch-up contributions of up to $6,500 allowed for those age 50 and older. At retirement, you pay ordinary income tax on your distributions.

The **Roth 401(k)**, which is available through sponsoring employers, incorporates elements of both traditional 401(k) plans and Roth IRAs, a type of personal retirement savings plan. Your contributions are made with after-tax dollars, but potential earnings grow tax free and distributions are tax free, provided you are at least age 59½ and have owned the account for five years. You may contribute a maximum of $19,500 per year ($25,500 for those age 50 and older); that limit includes any contributions to a traditional 401(k) account. Matching contributions made by your employer must be invested in the traditional side of the 401(k) account, not the Roth. Under the Small Business Jobs Act of 2010, participants in traditional 401(k) plans are now permitted to roll over funds into Roth accounts within their plans, if available. Any eligible funds transferred to Roth 401(k) accounts are taxed in the year of conversion. Some 403(b) plans may also offer a Roth option.

SIMPLEs are used by small businesses with 100 or fewer employees. A SIMPLE plan allows you to contribute up to $13,500 to a SIMPLE IRA or SIMPLE 401(k) in 2021. If you are age 50 or older, you may contribute an additional $3,000. Employer contributions, which are mandatory, can be in the form of either a 2% contribution to all eligible participants or a matching contribution that is generally 100% of the first 3% of compensation. Your contributions are pretax, and you defer payment of taxes until you begin taking withdrawals.

Because retirement savings options often differ from one employer to another, it is important for you to understand the specifics of *your* company's benefit package. Contact your employer's benefit coordinator for more information.

Personal Retirement Savings

Personal retirement savings may be the key to achieving your financial goals. Common complements to Social Security and employer-sponsored plans include the following:

Traditional IRAs allow you to set money aside in a tax-deferred account. Depending on your income and whether or not you participate in an employer-sponsored retirement plan, you may be eligible to take an income tax deduction. In 2021, the maximum contribution for all IRAs (traditional, Roth, or both) is $6,000, and those age 50 and older can contribute an additional $1,000. Even if you don't qualify for a deduction, your contributions have the potential to grow tax deferred; you pay taxes on withdrawals and avoid tax penalties if you are at least age 59½.

Roth IRAs permit earnings to grow tax free and distributions to be taken tax free, provided you have owned the account for five years and are at least age 59½. However, your initial contributions are not tax deductible. The contribution limits are the same as with traditional IRAs, including the guidelines for "catch-up" contributions, in the aggregate. In 2021, only taxpayers whose adjusted gross income (AGI) falls below certain levels ($125,000 a year for single filers, and $198,000 for joint filers) are eligible to contribute after-tax dollars to a Roth IRA.

With a sound assessment of your income resources, you can begin to plan for the retirement you want. The choices you make *today* can influence your future financial independence. Starting now puts time on your side.

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