SOUND STRATEGIES

Creating retirement income

When you retire, you give up something important — your paycheck. As you focus on accumulating retirement assets, take time to understand how you can use those assets to create retirement income.

Retirement income typically comes from three major sources — Social Security, pensions/retirement plans, and personal savings/investments. If you plan to work part-time in retirement, this would be an additional source. It's important to understand how these sources work together to fund your retirement years.

Social Security

Historically, Social Security has provided a significant portion of most retirees' income. However, it is unlikely this will continue. In addition, Social Security was never intended to meet all of a retiree's financial needs. According to the Social Security Administration, benefits typically replace approximately 40% of pre-retirement income.

You can visit ssa.gov to get a Social Security benefit statement called the Personal Earnings & Benefit Statement (SSA 7004), to get an estimate of your current and future Social Security benefits.

Keep in mind, benefits taken before your full retirement age may be considerably reduced. And, if you decide to phase into full retirement while collecting Social Security, your benefit may be subject to income tax depending on your total household income.

Employer pension plans

A pension is typically a percentage of your final pay, based on your years of service. Employers typically offer the following options for receiving your pension benefit: a monthly income stream over your lifetime, an income stream over the lifetimes of you and your spouse, or a lump sum distribution. Your decision should take into account your health, life expectancy, tax situation and your overall financial strategy.

Retiree sources of income

37%
Social Security

23%
Pension

12%
Asset Income

11%
Employment earnings

9%
Other

8%
Retirement Savings Accounts

Secure Retirement Institute Retail Retirement Reference Guide (2021)

With a sound strategy, your financial professional can help you prepare your retirement income for what matters most.

Insurance products issued by:
Minnesota Life Insurance Company

Personal Retirement Savings and Investments

Beyond pension plans and Social Security, it's up to you to bridge your retirement income gap with personal savings and investments. These may include the following: an employer-sponsored retirement plan, Roth IRAs, annuities and diversified retirement income portfolio which may include stocks, bonds, mutual funds, certificates of deposit, savings bonds, real estate and other financial products.

Employer-sponsored retirement plans (401k, 403b)

These tax-deferred plans represent a significant portion of retirement income for many. Remember, if you withdraw any of this cash prior to age 59½ you will be subject to 10% early-withdrawal penalty. In addition, if you take the balance as a lump sum, your employer is required to withhold an additional 20% for federal income taxes. Lastly, when required by the IRS, you will be required to take Required Minimum Distributions (RMD).

Other savings and investments (including IRAs, home equity, etc.)

For many, the largest component of their net worth is home equity, and many may tap into that equity for retirement income through downsizing. Other savings, including IRAs, will also likely be an important source of income.

Employment during retirement

Working in your retirement (if you are able to) is becoming the new norm to supplement your retirement income. Working longer can provide both financial and social benefits, but it's possible that you may end up retiring sooner than you expected due to layoffs, health or other life changes.

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