

Fundamentals of Retirement Planning

Most people identify a financially secure retirement as one of their primary financial goals. As you begin your financial life, retirement may seem to be far over the horizon and not worth thinking about. However, by spending a little bit of time now and doing some relatively easy things, you can put yourself on the road to a financially secure retirement.

You will have four sources of income when you retire:

1. Employer Retirement Plans
2. Individual Retirement Accounts (IRAs)
3. Other Personal Savings
4. Social Security

The future of the Social Security system and the benefits you may receive may be open to question, but you have control over the first three listed above. By starting early and making a few wise decisions, you can determine the type of financial lifestyle you will enjoy during your retirement years, regardless of far in the future that may be.

Employer Retirement Plans – 401(k) Plans

Most large companies and many others provide a retirement plan as part of their overall employee benefits program. Plans known as 401(k) plans have become popular and relatively common. With this type of plan, employees contribute a portion of their wages to the plan (reducing their taxable income) and their employer usually matches some portion of what the employees contribute. In other words, the company helps fund your retirement and you get a tax break.

Earnings on money within the plan are not subject to tax until they are withdrawn and employees can usually choose from a number of investment choices for how their funds are invested.

There are limits on how much can be contributed, but recent tax law changes have significantly increased the amounts that can be accumulated in corporate retirement plans, especially 401(k) plans.

- Employee deferral limit - \$19,500 for 2020.
- Additional contribution limit for those ages 50 and over - \$6,000 for 2020.
- Maximum total contribution limit (employee and employer) - \$57,000 for 2020.

Be sure to participate in a 401(k) plan if one is available. Contribute as much as you can to your 401(k) plan and especially try to contribute enough to get the full employer match. Review your investment options and choose wisely.

Individual Retirement Accounts (IRAs)

Anyone with earned income can contribute to an IRA to supplement other retirement planning savings. Both regular IRAs and Roth IRAs provide tax deferred accumulation of funds within

the accounts. Contributions to a regular IRA may be deductible if you do not participate in an employer sponsored retirement plan or if your income does not exceed certain levels. Roth IRA contributions can be made by individuals with income below certain levels. Contributions to Roth IRAs are not tax deductible, but Roth IRAs provide an additional benefit of their distributions not being subject to income tax and there is more distribution flexibility. In addition, individuals ages 50 and over can make additional annual contributions. Here are the contribution limits for both regular and Roth IRAs.

Roth IRA and Regular IRA Contribution Limits

For tax year	IRA contribution limit	Additional contribution limits for those age 50 and over
2020	\$6,000	\$1,000

If you can afford it, add to your retirement nest-egg by funding your IRA every year. Annual contributions of even \$1000 can make a big difference down the road. Time is on your side.

Other Personal Savings

Another source of retirement income will be your other savings. Accumulations in savings accounts and investment accounts, while not enjoying the tax preferences of 401(k) plans and IRAs, are still a major component of most individuals' retirement income. Saving more and earning more on these funds can add greatly to your retirement lifestyle.

Consider taking advantage of automatic savings plans with monthly transfers to a savings account or investment account. Be sure that your investment strategy is sound, with consideration given to your goals, your time horizons and your risk tolerance.

Social Security Retirement Benefits

The Social Security system has played a major part in Americans' retirement planning for decades. The current examination and debate over the future of the system will probably produce some changes for future retirees. Here are some basic facts you may want to remember:

- Full Retirement Age – the age when you can start receiving “full” benefits is gradually moving from 65 to 67.
- Early Retirement Age – at age 62, you can start receiving a reduced retirement benefit.
- Average Retirement Benefits for retired couples for 2019 – about \$2,448.
- Maximum Retirement Benefit for retired workers at full retirement age for 2020 – about \$3,011).

At this point, there is very little, if anything you can do to change the benefits you will receive from Social Security.