10 Potential Sources of Retirement Income

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If you’re nearing retirement, the word “income” should never be too far from your mind. These days, very few people can afford to retire when and how they want on their savings alone. In retirement, you need a consistent stream of income to meet expenses, reach your goals, and ensure your money lasts a lifetime. If you’re like most working people, you probably have only one major source of income, and that’s your job. But as you know, that well will dry up once you hit retirement, meaning you will need to seek out new sources to tap. The good news is that there are lots of potential wells to draw from.

1. Social Security

It is an important source of income, so it’s very important you take steps to maximize your Social Security benefits. How can you do that, you might be wondering?
Here are 5 Questions to Answer before Filing for Social Security.

- **How is Your Benefit Determined?**
  The amount of Social Security benefits that you receive is based on your work history…..both the number of years you have worked, as well as how much your earnings have been. The SSA considers your wages over the 35 years during which you earned the most money, up to the annual payroll tax cap. So, if you worked fewer than 35 years, the SSA will factor in $0 annual earnings for the years you didn't work. And those zeroes can significantly reduce your benefit amount.
  For this reason, you might consider working a few more years if you don't have 35 work years on your record. Or, if you're earning much more now than you were at the start of your career, you may decide to stay on a for a few extra years so your early lower earning years are replaced your later high-earning years.

- **How does Your Age Affect Your Social Security Benefits?**
  The SSA's benefits formula is used to determine how much income you'll receive if you retire at your full retirement age or FRA. FRA varies depending when you were born. If you were born after 1960, your FRA is 67. If you start claiming benefits before reaching your FRA, you'll see your benefits reduced. But if you delay claiming your benefits until after your FRA, you can earn delayed retirement credits until you reach 70 years of age, where this bonus maxes out.
  This reduction means claiming early can lead to a pretty substantial drop in benefits. Conversely, claiming later will dramatically increase your benefits.

- **How do Spousal Benefits Work?**
  The SSA has special rules for spouses. In particular, spouses can claim benefits on each other's work records and may also be entitled to survivors benefits once one spouse passes away. Because of these rules, the decisions you make on Social Security could affect your spouse, too.
  If you claim your benefits early when you have more earnings than your spouse, you could end up permanently reducing the amount your spouse is entitled to in survivors' benefits, if you pass away first. On the other hand, if you're the lower-earning spouse, you could potentially get a higher benefit by claiming on your spouse's work record rather than your own.
  The rules for spousal benefits are complicated. So make sure you understand the rules before you claim, and don't assume the Social Security Administration will help you maximize your benefits.

- **4. Are your Savings Healthy?**
  Social Security should, ideally, make up only a portion of your total retirement income. But if you don't have much in the way of savings, it could end up constituting the bulk of it. If your nest egg isn't all that substantial, delaying and growing your benefits past your FRA could be your best shot at salvaging your retirement.

- **Would you like to Continue Working?**
  One nice feature of Social Security is that you're allowed to work and collect benefits simultaneously. You might need those benefits to supplement your earnings later in life, especially if you're forced to cut back on your working hours due to health issues. Or, you might simply *want* those benefits to enjoy life while you're a bit younger.
  That said, if you file for benefits ahead of FRA, you'll risk having a portion of them withheld if your earnings exceed a certain threshold. That limit changes from year to year, but in 2022, you'll have $1 in benefits withheld for each $2 you earn above $19,560. The only exception is the year you reach your FRA, in which case you can earn up to $51,960 without affecting your benefits. From there, you'll have $1 in Social Security withheld for every $3 you earn.
  Keep in mind……these benefits are withheld, and not lost. The SSA will add them back into your monthly payments once you reach FRA. But the reduction in benefits you'll face by filing early ***will*** be money you'll lose forever. So if you plan to continue working, it might pay to hold off on claiming benefits until you reach FRA.

2. Pensions

Sadly, pensions are going the way of the dodo in this day and age. According to a study by the Employee Benefits Research Institute, only 55% of workers expected to receive pension income in retirement … and that number is likely to decrease dramatically over time. However, if you are one of the lucky few who can expect to receive a pension, good for you!

3. A 401(k)

More than likely, you are one of the 88 million individuals with a 401(k) account. If so, know that your 401(k) is a great source of retirement income … but be sure to resist the temptation to withdraw too much too soon.

So how can you be sure it is maximized. Here are some tips…..

Tip #1. Contribute the maximum amount possible

For 2022, 401(k) limits are $20,500 or $27,000 if you are over 50. For 2023, 401(k) limits are $22,500 or $30,000 if you are over 50. But if you can't do that, at least make sure your contribution is equal to your employer's match. This is essentially free money on the table, so make sure you're contributing enough to qualify.

Tip #2. Review your 401(k) to be sure it stays balanced

Review your 401(k) regularly to determine if it needs to be rebalanced. Rebalancing your 401(k) is a great way to ensure your 401(k) remains invested how you want it to be. For example, let's say you originally divided your account to invest 50% in stocks and 50% in bonds. Imagine that your stocks rose high in value. This could lead to a weighting of 70% in stocks! Rebalancing is returning to your original intent of 50/50 in both stocks and bonds.

Tip #3. Be sure your investments are lined up with your overall goals

Determine whether the investments in your 401(k) are in line with ***your*** overall goals. Sometimes people find their 401(k) contains companies that are either too risky or too conservative … but how could you know that if you don't look at your 401(k)? It's smart to periodically review your investments to make sure everything is in order.

Tip #4. Consider consolidating your old 401(k)s

If you have multiple 401(k) accounts, you may want to consider rolling your old account balances into your current plan, so they're not 'forgotten' about. Another option is to roll old 401(k)s into an IRA that you have more control over.

Tip #5. Review your 401(k) holdings with a tax professional

Have a certified tax professional examine your 401(k) holdings to determine if they can be made more tax efficient

Tip #6. Do not withdraw from your 401(k) if at all possible

Avoid the temptation to withdraw money from your 401(k) before retirement. Frequently those who borrow never pay themselves back. In most cases, withdrawing early can lead to severe penalties.

Tip #7. Be careful about investing in your own company's stock

Do you work for a publicly-traded company? If so, are you investing in your own company's stock? Whether it is in the form of an employer-sponsored retirement plan like a 401(k), vested stock options, or by choice, it is crucial that you determine if your company's stock is the best place for your money to be. Sometimes, investing in your company can be a smart move, especially if the business is growing. Other times, the company may take up far too large a space in your portfolio, leaving you vulnerable if things go south. If you are investing in your company's stock, is it because of how your company's 401(k) is allocated? Is it out of a sense of loyalty? Or is it because you ***know*** it is a good investment?

Tip #8. If you're over 59 ½, you may want to consider a partial in-service rollover to an IRA

These days, many pre-retirees save for retirement primarily through an employer-provided 401(k). 401(k) accounts can be a great savings tool, especially if your employer matches your contributions. But there are occasions when relying on a 401(k) account isn't the best option. Some employers *don't* match their employees' contributions, and other 401(k)s have a narrow range of investment options to choose from. So, what you may want to consider is an "in-service withdrawal." Here's how it usually works. For companies that permit it, workers can begin rolling over funds from their 401(k) starting at age 59 ½ to an IRA which will often have a wider range of investment choices. One popular tactic is to withdraw a ***portion*** of the funds inside your 401(k) for placement inside an IRA. The remainder can be kept inside the 401(k). This gives you the best of both worlds.

4. IRAs.

They are one of the most popular ways to save for retirement, because they enable you to invest your money in a way that also brings significant tax advantages. One thing to keep in mind: there are a couple of different types of IRAs, each with different strengths. So, do you know which type is right for you? A Traditional IRA? or a Roth IRA? While both types help you save for retirement, they each come with different advantages and disadvantages. So, you should weigh the pros and cons of each in order to decide which is more suitable for you. But before we do that, let's quickly discuss what a Traditional and a Roth IRA has in common.

1. Both are designed to help you save for retirement.
2. Both usually come with a wide range of investment options.
3. Both have the same annual contribution limits
4. Both come with substantial tax advantages. It's when these tax advantages apply that Traditional and Roth IRAs differ. With a Traditional IRA, all the contributions you make are usually tax deductible but your distributions are considered ordinary income and may be subject to income taxes. With a Roth IRA, your contributions are not tax-deductible, but your distributions are.

So how do you choose between the two? The answer is by following this simple rule of thumb: If you expect your tax rate in retirement to be lower than it is now, go with a Traditional IRA. That way, you can skip paying taxes on your IRA while your tax rate is higher, and then pay less in taxes once your tax rate is lower. On the other hand, if you expect your tax rate to be the same or higher during retirement, a Roth IRA is likely a better choice.

Here are a few other differences between Traditional and Roth IRAs.

1. Anyone can contribute to a Traditional IRA no matter how much income they make. If your income exceeds a certain limit, you may not contribute to a Roth IRA. As of 2022, the limit is $129,000 if you are single and $204,000 if you are a married couple filing jointly.
2. With a Traditional IRA, you must withdraw a minimum amount from your IRA every year following the year you reach age 73, as of 2023, and these withdrawals may be subject to income tax. Roth IRA owners do not have to withdraw money from their accounts if they don't want to, even after retirement. Contributions to a Traditional IRA may be tax deductible, but distributions may be subject to income taxes. Roth IRA

distributions are tax - free if made 5 years after the initial contribution to the plan and you are over 59 1/2.
Please be sure to speak to your financial professional to carefully consider the differences between your company retirement account and investment in an IRA. These factors include, but are not limited to changes to availability of funds, withdrawals, fund expenses, fees, and IRA required minimum distributions

5. Stocks.

Many retirees are shy of investing in the stock market, wary as they are of the inevitable dips and dives that no investor can avoid. And while it is important to decrease your investment risk after retirement, it's important to note that it's possible to be too afraid of risk. You see, stocks can be a powerful way to grow your money. Growth is important, even in retirement, because many retirees often discover that the money they saved can dry up pretty quickly, especially on things like medical care. For that reason, stocks can be an important source of retirement income.

Our goal is to keep you informed. If we can help you retire better, that is great. We don't sell a product. But rather we have a process. We believe it's important to get people ready for retirement, and our trademarked wealth toolkit can do just that with its retirement planning tool, risk assessment tool and Social Security analysis tool. In addition to our wonderful Wealth Toolkit, we have an active management style that is different than most. This isn't quarterly rebalancing, or even market timing. But a process of evaluating daily research that we buy, in an effort to know what the market has been doing so we can react accordingly. Since a good portion of our clients are at, or in retirement, we feel this style of management is vital to their potential retirement success. If you would like to talk with Noel of if you would like to come in and see him, the number to reach us is 1800-277-0025

6. Dividends.

Some companies pay out a regular dividend—essentially, a percentage of their profits—to their shareholders. That's why dividend-paying stocks can be especially attractive sources of retirement income. Basically, if you invest in a dividend-stock, you get a regular paycheck or direct deposit. Here's a quick example of how they work. Say you own 1,000 shares in a company. The company pays a dividend of $0.50 a share. Multiply the dividend by the number of shares you own, and voila! Owning 1,000 shares nets you a payment of $500. (Of course, this is in addition to the profit you'd make if the price of your shares goes up.) Although dividend-paying stocks aren't perfect, they are certainly worth looking into.

7. Annuities.

An annuity is a type of product that provides guaranteed payments to the owner for as long as they live. However, be aware that annuities can come with a lot of fine print and expenses. So, while annuities can be a good source of retirement income, you should exercise caution before choosing to purchase one.

8. Bonds.

Bonds have traditionally been popular with older investors who are looking to invest more conservatively. Because bondholders receive regular interest payments, they can be a fairly reliable form of investment income. Investors in higher tax brackets can also benefit from the fact that some bonds provide tax-free income. All that said, the bond market can experience volatility just like the stock market can, so always do your due diligence before investing.

9. Your own savings.

The least sexy form of retirement income can also be one of the most reliable. Your own hard-earned savings might not bring in a lot of interest, these days, but it does bring a lot of liquidity … and you have complete control over it.

10. Working a part-time job.

More and more retirees are realizing that part-time work of some kind may be necessary. The good news is that working part-time doesn't have to be solely about your bottom line. Many retirees find that working, even if it's just for a few hours a week, actually makes life more fulfilling. Sometimes, work is its own reward.

To get a second opinion on your retirement outlook and portfolio, give us a call at 800-277-0025 or send an email to asknoel@theprovestperspective.com.

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