Sources of Retirement Income

The money you need in retirement may come from a combination of three major sources sometimes called "the three-legged stool."

1. **Employer-Sponsored Plans**

   - **Defined-benefit plans**, commonly known as pension plans, provide a monthly benefit from the time you retire for the rest of your life. Each plan uses its own formula for calculating the benefit amount, but it is usually a function of your salary and years of service at retirement. The plan may offer you the option of taking your benefit as a lump sum. Pension plans are usually funded completely by your employer.

   - **Defined-contribution plans**, such as a 401(k) plans, have become more popular in recent years. A 401(k) plan is funded by the employee, although your employer may also contribute as an incentive for you to participate in the plan. Contributions are excluded from taxable income, subject to certain limitations. Other types of defined-contribution retirement plans are 403(b) plans, SIMPLE IRA plans and Simplified Employee Pension plans (SEPs).

2. **Social Security**

   - One source of retirement income may be Social Security. But Social Security was not intended to cover all of your financial needs in retirement. Changing demographics, such as longer life expectancies and large numbers of Americans approaching retirement, have put the Social Security system under increasing strain. The younger you are, the longer you will have to wait to receive full Social Security benefits.
     When you receive your statement of your Social Security earnings and benefits, review it carefully. You can also provide a copy of this statement to your financial advisor to assist in developing your financial plan.

3. **Personal Savings**

   - The third – and possible most important – component of your retirement income is personal savings. Rather than counting on benefits from the government or your employer, which can be uncertain, more and more people are taking personal responsibility in saving for retirement.
     To get the most from your personal savings, it's important to understand all of your options, especially tax-deferred strategies. These options may include:
     - Mutual Funds
     - Roth IRAs
     - Cash Value Life Insurance
     - Traditional IRAs
     - Tax-Deferred Annuities