

Retirees Must Identify And Manage Income Sources

During your working years, you know where your income is coming from because you're working. But once you retire, you'll have to identify your income sources, know how much you can expect from them and know how to manage them to help support a retirement that could last two or three decades.

So, where will your retirement income come from? And what decisions will you need to make about these income sources?

Consider the following:

- *Retirement accounts* – If you've regularly contributed to an IRA and a 401(k) or similar employer-sponsored retirement plan, you likely have accumulated substantial amounts of money in these accounts — but during your retirement, you'll need to start tapping into them. In fact, once you turn 73, you're required to start taking withdrawals from some of your retirement accounts, with the amount determined by your age and account balance. You could take out more than these amounts (technically called required minimum distributions, or RMDs) but you can't take less without incurring penalties. Many people take out 4% of their balance each year, and this guideline may be reasonable, but everyone's situation is different. So, you'll need to weigh various factors including your age, health and other sources of income before deciding on an appropriate withdrawal rate.

- *Social Security* – You can start collecting Social Security at age 62, but your payments will be much higher if you wait until your full retirement age, which will be between 66 and 67. And your benefits will reach the maximum amount if you wait until 70 before collecting. So, your decision on when to take your benefits will depend on whether you can afford to wait, and for how long. In making this choice, you'll also need to consider your health and your family history of longevity. And if you're married, you may want to factor in spousal benefits when deciding when you should collect Social Security. A spouse can receive either their own benefit, based on their work record, or up to 50% of their spouse's benefit, whichever is greater. So, if one spouse has a much

higher benefit, it may make sense for that spouse to delay taking Social Security as long as possible so that both spouses can receive bigger payments.

- *Earned income* – Even if you have retired from one career, it doesn't mean you can never receive any earned income again. If you have specific skills that can translate to part-time work or a consulting arrangement, you might want to consider reentering the work force in this way. With the added income, you might be able to afford delaying Social Security, and you would still be eligible to contribute to an IRA.

- *Supplemental lifetime income* – There aren't many guarantees in the financial and investment worlds — but one of them is the income from a fixed annuity, which can be structured to provide you with a lifetime income stream. Annuities aren't for everyone, however, and they do involve penalties for early withdrawals and lack of protection from inflation.

By learning all you can about your potential retirement income sources, and by understanding how to manage this income to your best advantage, you can help yourself achieve a comfortable — and more rewarding — retirement.

This article was written by Edward Jones for use by your local Edward Jones Financial Advisor.

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