Four Components of a Financially Secure Retirement

Most people identify a financially secure retirement as one of their primary financial goals. Reaching that goal can be easier by examining the four sources of income you will have during retirement and identifying steps you can take now to increase each of those sources.

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 2010 – $1,876.
- Maximum Retirement Benefit for retired workers at full retirement age for 2010 – $2,323.

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

Employer Retirement Plans

Recent tax law changes have significantly increased the amounts that can be accumulated in corporate retirement plans, especially 401(k) plans. 401(k) plans offer a powerful way to accumulate funds - the amount you defer into the plan reduces your current taxable income, the plan probably has an employer matching provision, funds within the plan can grow on a tax deferred basis and the limits for contributions are large.

- Employee deferral limit – $16,500 for 2010.
- Additional contribution limit for those ages 50 and over – $5,500 for 2010.
- Maximum total contribution limit (employee and employer) – $49,000 for 2010 and $54,500 for those 50 and over.

Contribute as much as you can to your 401(k) plan and especially try to contribute enough to get the full employer match. It is always nice to have your employer help you accumulate more funds.

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 for the 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 falls below 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.

Regular IRA and Roth IRA Contribution Limits

Regular IRA and Roth IRA Contribution Limits		
For tax year	IRA contribution limit	Additional contribution limits for those age 50 and over
2008	$5000	$1000
2009	$5000	$1000

Your tax advisor may help you better understand how the tax laws would apply to your situation, but do not ignore this powerful retirement planning tool.

Other Savings

The final 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. Also, be sure that your investment strategy is sound with consideration given to your goals, your time horizons and your risk tolerance.