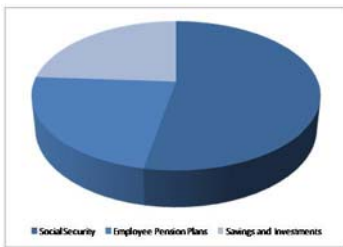


# Retirement Planning



MCKAY WEALTH MANAGEMENT

## Sources of Retirement Income



For most people, retirement represents a shift away from the saving, investing, and accumulation phase of life to the spending and distribution phase. This can be a problem if you haven't planned well: Although money typically does not come in like it did before, often it goes out just as fast as it always did. What took you a lifetime to accumulate is now exposed to a series of risks and potential shortfalls.

How can you manage the distributions from your lifetime savings to last through your retirement -- perhaps with some left over for your beneficiaries? As average life expectancies increase, more pension plans transfer investment risk to employees, and inflation continues to cut into purchasing power, this question is becoming increasingly critical.

A big part of your retirement plan should include knowing your potential sources of income and figuring out how they fit in your overall income strategy. As you know, social security alone isn't likely to cover the cost of all your retirement living expenses.

If you're like most people, your retirement income will stem from these sources in the following proportions:

Social Security  
55%

Employee Pension Plans  
24%

Savings and investments  
24%

These are ballpark figures that depend on a lot of factors, such as when you started saving, how aggressive or conservative your portfolio is, market place fluctuations, and so on.

### Points of Interest:

- SOURCES OF RETIREMENT INCOME
- SOCIAL SECURITY
- EMPLOYER SPONSORED PLANS
- PERSONAL SAVINGS AND INVESTMENTS

## Social Security—Uncle Sam's Contribution

Social Security was originally designed as a retirement benefit for a relatively small pool of workers for a reasonably short period of time. But as that pool of workers has grown and life spans have increased, social security has grown thin. It's becoming clear that Social Security can't meet the

needs of baby boomers whose ranks are swelling as they line up to take a whack at a limited retirement pool.

President Reagan, in an attempt to mitigate the shortfall, amended the Social Security Act in 1983 to adjust the retirement age for when you can col-

lect full benefits across a span of birth years. Here's how it works:

If you were born before 1938, your full retirement age is 65.

If you were born 1943 – 1954, your full retirement age for collecting social

If you were born in 1960 or later, your full retirement age is 67.

You can still begin collecting Social Security at age 62, regardless of your birth year, but you won't receive full benefits. Social Security deducts a percentage of your benefits because they expect you to live longer.

# Retirement Planning

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WHERE IS  
YOUR  
RETIREMENT  
INCOME  
COMING  
FROM? YOU  
MIGHT BE  
SURPRISED...

## Social Security Alone Won't Do it

The most optimistic forecast is this: if you have been working all your life and contributing the maximum to Social Security system, you could receive anywhere from \$13,000 up to \$19,000 per year at your normal retirement age. This translates to roughly \$20,000 per year for a couple...not an amount most people can live on comfortably today.

The future of Social Security is uncertain at best. Recently, Alan Greenspan observed that "significant structural adjustments" to Social Security and Medicare may have to occur in order to deal with the country's budget deficit.

You can find out how much you are entitled to from Social Security by sending for a statement entitled,

"Request for Earnings and Benefit Estimate Statement." You can obtain a free form from your local SSA office, call them toll-free at 1-800-772-1213 or visit them online at [www.ssa.gov](http://www.ssa.gov).

## Employer Sponsored Plans: Pensions & Savings

### PENSIONS

Pensions used to be the most common retirement plans provided by employers, but no more. Pensions, technically called "defined benefit plans," were designed to provide a specific benefit for retired employees. Traditionally, pensions offer a guaranteed lifetime income for as long as the employee lives. This benefit often extends to the

spouse's life too.

Employers engage professional plan administrators that manage the investments in the plan and calculate the annual amount the employer must contribute each year to fund the plan.

The pension amount the employee receives can depend on a number of factors, including the em-

ployee's retirement age, or the employee's salary at retirement or number of years employed. Every plan is customized to meet the needs of the employer.

### SAVINGS

Traditional pensions have generally proven to be too expensive for most companies, so employers have opted for a more modified approach to

providing retirement benefits. These plans include 401(k)s, 403(b)s, 457s, and SIMPLE IRAs.

Your employer may or may not choose to match some or all of the earnings you have accumulated in your defined contribution plan. Employer matching depends upon calculations based on employees participating equally in the plan.

## Employer Sponsored Plans continued

Employers can contribute to their employees' retirement account but don't have to guarantee the benefit the employee will receive.

The benefits of these plans differ according to who is eligible to participate, the amount you're allowed to contribute, and how the

investments perform.

One advantage of defined-contribution plans is that you usually have more control over how your money is invested. Plus, if you change jobs, you can take your retirement plan with you.



## Savings & Investments

The final piece of your retirement pie will come from your personal savings and investments. These may be personally owned retirement accounts such as IRAs, or other investments.

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