

Pieces of the Puzzle

Your retirement income may come from a number of different sources — traditional pensions, 401(k) plans, and Social Security, for example. Understanding how all the pieces of your retirement “master plan” fit together may help you solve the retirement planning puzzle.

Traditional Pensions

Traditional pension plans are also known as *defined benefit plans* because retirees receive a monthly check based on years of service, salary, and retirement age.

If you leave a job with a traditional pension before the normal retirement age, you don’t necessarily lose the right to collect that pension. In fact, you might be able to collect a lump sum that you could roll over into another employer’s qualified retirement plan or an individual retirement account.

401(k) Plans

With a retirement savings plan, such as a 401(k), employees save a percentage of their salary in the plan. Their savings and investment earnings are both tax deferred. Employers may offer to match a percentage of the employee’s contribution. However, employees may have to work a certain number of years before the employer’s match becomes nonforfeitable, or “vested.” If you change jobs frequently, you may not benefit much from employers’ matching contributions.

Social Security

If you were born in 1938 or later, you won’t be eligible for full Social Security benefits at age 65. Instead, a sliding scale based on the year you were born determines when you can receive full benefits. You may receive reduced benefits starting at age 62. However, the permanent benefit reduction may be as much as 30% of your full benefit, depending on when you were born.

Once you put all the pieces of your retirement plan together, you can figure out how much you can expect to receive in retirement income. If that amount is lower than you wish — or will need — it’s never too late to start saving more for retirement.