RPC NEWS

A quarterly newsletter for Retirement Plan Participants

Get Ready To Test Your Retirement Planning Smarts

Retirement planning starts with your first contribution to a retirement account and continues throughout your working years. But how much do you really know about it? Find out by taking our quiz. Answers follow each question, but don't look ahead!

1. Shana and Doug both began working at Sooper Dooper Company at age 25. As soon as she was eligible, Shana started contributing $200 a month ($2,400 a year) to the company's 401(k) plan. She continued contributing until her retirement at age 65. Doug waited until he was 40 to begin making contributions. Then he contributed $400 a month ($4,800 a year) — twice as much as Shana — until he reached age 65. Their investments earned a hypothetical average annual return of 7%,* compounded monthly.

Who had more money at retirement, Shana or Doug?

Answer: If you chose Doug, you're off the mark by approximately $202,000! Shana's much earlier start gave her two huge advantages: time and the power of compounding (earning income on your original investment and on the earnings it generates). Although she contributed less than Doug — $96,000 compared with Doug's $120,000 — Shana had $528,025 saved at retirement, while Doug had only $325,919 (before taking income taxes into account).

2. After working at Sooper Dooper Company for 20 years, Soco, Huong, and Calvin were all leaving for other jobs, so they had to decide what to do with the money in their retirement plan accounts. Soco elected to leave her money in Sooper Dooper's 401(k) plan. Huong requested a trustee-to-trustee transfer of his account balance to a rollover IRA (individual retirement account). And Calvin withdrew all his savings in a lump sum so he could pay off his debts.

How did their choices impact their federal income taxes?

Answer: Soco's decision to leave her money in her current plan meant that her savings continued to grow tax deferred until she withdrew her money at retirement.

And because he rolled over his account balance to an IRA, Huong's retirement savings also remained tax deferred. If allowed, Huong could also have avoided taxes on the distribution by rolling the money into his new employer's 401(k) plan.

By taking a lump-sum withdrawal, Calvin received only 80% of his account balance — 20% was withheld to prepay income taxes. And, in his tax bracket, this wasn't the extent of his tax liability. Plus, since Calvin was under age 59½ and wasn't eligible for an exception, he had to pay a 10% early distribution penalty. Calvin not only wound up with a lot less money than he'd planned on having to pay down his debts, but his retirement savings were also wiped out.

3. Since their employer doesn't offer a retirement plan, coworkers Jack and Helena decided to open IRAs. Jack chose an IRA that allows him to make tax-deductible contributions and enjoy tax-deferred earnings. He won't pay taxes until he withdraws his money. Helena's contributions to her IRA are not deductible. However, she can withdraw her contributions tax free at any time, and withdrawals of earnings will also be tax free after she's reached age 59½, as long as she's met a five-year waiting period.

Which type of IRA — traditional or Roth — are Jack and Helena each investing in?

Answer: Jack is investing in a traditional IRA; Helena has a Roth IRA. Both offer tax advantages — Jack's is immediate since he gains a tax deduction for his contributions, whereas Helena's will be realized later when she takes tax-free withdrawals. But, unlike Jack, Helena won't be required to take annual minimum distributions from her IRA after she reaches age 70½.

** This example is for illustrative purposes and is not representative of any particular investment vehicle. Your investment performance will differ.*

Did you know about out reports and online statements feature? You can run reports on demand for participant activity by source, personal rate of return, and a web statement for any specified period for which you are looking!

- Participant activity by source report - provides a summary of activity by contribution type (employee pre-tax, Roth, employer match, or employer nonelective) for the specified period.
- Personal rate of return report - provides a performance percentage of how the investment funds for your account have performed for the specified period you enter.
- Web statement report - provides a simplified version of the statement you received quarterly.

All reports you run will be saved and available for future reference in the Report Groups section located below the report options. You can also find copies of your quarterly statements in this section.

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Excuses, Excuses

It can be difficult to save for a goal that seems far off in the future, such as retirement. For now, you may have a hundred reasons why retirement isn't a financial priority. But there are definite advantages to putting your excuses aside and focusing on your future. If any of the following alibis sound familiar, it's time to start giving careful consideration to how much you are saving for retirement.

Too Many Other Things

There are always going to be other things to save for and spend money on. Paying off student loans, a down payment on a home, summer camp for the kids, college tuition — things like these are important. But it's also important to keep saving for your retirement. Not saving enough for retirement today probably means having to put aside even more in the future.

What's the Hurry?

You might think you have plenty of time to concentrate on your retirement savings. But by not saving early, you have less time to potentially benefit from compounding — that is, generating earnings on any investment earnings from your plan investments.

Wow! That's a Lot of Savings

Of all your financial goals, the amount you need to save for retirement may be the largest. But don't let that intimidate you into not saving as much as you should. Look at building your retirement savings in small steps and saving a little toward your goal with each paycheck. And as time passes, try to contribute more. Gradually increasing the amount you contribute can help grow your account balance.

I Just Won't Stop Working

It's possible you're planning to work after retirement age because you want to. But what if you're counting on working for financial reasons? It might seem easier now to believe that you can save less for your retirement because you'll continue to work. However, you might not be able to keep your job or be able to find another one. And you may not be healthy enough at your retirement age to keep working.

No Thanks, I'm Counting On...

Winning the lottery? Inheriting a fortune? Good luck might come your way, but counting on it for your retirement savings means you're probably minimizing the possibility of meeting your goal. You'll give yourself a better chance if you count on yourself to lead the way by putting the excuses aside and making saving a priority.

Put Time on Your Side

The amount needed to save each month to reach a retirement savings goal depends on several factors, including how much time is available for potential growth.

Years until retirement:	40	30	25	20
Average annual total return:	6%	6%	6%	6%
Savings goal:	$250,000	$250,000	$250,000	$250,000
Monthly savings needed:	$126	$249	$361	$541
Savings goal:	$500,000	$500,000	$500,000	$500,000
Monthly savings needed:	$251	$498	$722	$1,082
Savings goal:	$750,000	$750,000	$750,000	$750,000
Monthly savings needed:	$377	$747	$1,082	$1,623

This is a hypothetical example used for illustrative purposes only. It does not represent the results of any particular investment vehicle. Your results will be different. Monthly compounding is assumed. Tax-deferred amounts accumulated in the plan are taxable upon withdrawal (unless they represent qualified distributions from a designated Roth account). Amounts are rounded to the nearest dollar.

Source: DST

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