Get Ready To Test Your Retirement Planning Smarts

This quiz will test your knowledge of saving and investing for retirement.

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 this quiz. Answers follow each example, but don't look ahead![1]

Example 1: Shana and Doug both began working at Super Duper 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.[1]

Who had more money at retirement, Shana or Doug?

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).

Example 2: After working at Super Duper 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 Super Duper's 401(k) plan. Huong requested a trustee-to-trustee transfer of his account balance to a rollover individual retirement account (IRA). 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?

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, where he would have the added advantage of managing all of his retirement savings in one program.

By taking a lump-sum withdrawal, Calvin received only 80% of his account balance as 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% additional tax for early withdrawal. 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.

[1]These examples are for illustrative purposes and are not representative of any particular investment vehicle. Your investment performance will differ.

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Investing in Retirement: What's Age Got To Do With It?

Moving most of your retirement savings into conservative investments as you near retirement may not always be the best approach.

Dilemma: You want to earn returns that will outpace inflation and provide you with enough income to live comfortably for as long as you're retired, but you don't want to risk losing your gains to a market slump. Does this sound familiar?

Conventional wisdom may tell you to preserve your assets by moving most of your nest egg into more conservative investments as you approach retirement. But where is it written that once you get close to retirement age, you should dump your equity investments? Age isn't the only factor to consider when you're choosing investments for your retirement portfolio. *When* you'll need to tap your investments is a more important indicator of how your portfolio should be constructed.inves

Risk tolerance doesn't retire when you do. The amount of risk you feel comfortable taking won't necessarily change just because you stop working. Unless you're concerned that your portfolio is exposed to too much risk, you may not want to make any major changes to your investment mix.

Get the return you need. Your money won't last throughout retirement if your investments aren't producing returns that match your needs. If you rely only on fixed-income and cash equivalent investments, you may outlive your resources. Leaving a portion of your portfolio in a well diversified mix of equity investments may help provide the growth you need.

Best of both worlds. Consider putting money for living expenses for the next few years into short-term investments, while still holding a portion of your portfolio in equities to benefit from their potential for higher returns.

Your financial professional can help you design a diversified[1] retirement portfolio that makes the most of the assets you've accumulated and positions your portfolio for continuing growth.

[1]Diversification does not ensure a profit or protect against loss in a declining market.