Financial Issues

Spring 2019 CEFCU® Investment Services and Wealth Management

For Retirement, Income Matters as Much as Savings

Steady income or a lump sum?

Last year, the financial services firm The Teachers Insurance and Annuity Association (TIAA) asked working Americans: "at retirement, if you could choose between a lump sum of $500,000 or a monthly income of $2,700, which would you choose?"[1] Sixty-two percent said they would take the $2,700 per month. Figuring a 20-year retirement for today's 65-year-olds, $2,700 per month comes to $648,000 by age 85. So, why did nearly 40% of the survey respondents pick the lump sum over the stable monthly income?[1]

Maybe instant gratification played a part. Maybe they ran some numbers and figured the $500,000 lump sum would grow to exceed $648,000 in 20 years if invested — but there is certainly no guarantee of that. Or, perhaps they felt their retirements would last less than 20 years, as was the case with many of their parents, perceiving the lump sum as a "better deal."

The reality is, once you retire, income becomes a primary concern. Retirement is when you start to convert savings to fund your everyday life. Could you retire with income equivalent to 80% of your final salary? If you saved and invested consistently through the years, that objective may be achievable.

Social Security replaces about 40% of income for the average earner

So where will you get the rest of your retirement income? It could come from multiple sources, including:[2]

- ***Regular, automatic withdrawals from retirement savings and investment accounts.*** You may start taking distributions from these accounts at an initial withdrawal rate of 4% (or less). If these accounts are quite large, these funds could even match or exceed your Social Security benefits.[3]
- ***401(k) or 403(b) plans.*** These are a common source of retirement income if you worked for a for-profit or nonprofit company, such as a school, religious group, or the government.
- ***Pensions.*** This can be a prime source of income for people who retire from a government position or larger company.
- ***Your home.*** Selling an expensive residence and buying a cheaper one can free up equity and reduce future expenses, thereby leaving more money for you in the future.

Continued on page 2

Working longer may give your retirement income a boost

A recent analysis from the National Bureau of Economic Research concluded that by delaying your retirement even three to six months, you could give yourself the potential to raise your standard of living in retirement as much as you would if you save 1% more of your pay over 30 years![3,4]

More retirement income is better than less!

Although your retirement benefits may be taxed, more retirement income is decidedly better than less — and a key part of retirement planning is estimating both your retirement income need and your retirement income potential. Before you retire, talk with a Representative from CEFCU Investment Services. You can meet with a Representative by phone, online (from the convenience of your home or workplace), or in person at most Member Centers. To schedule a no-obligation appointment, call 309.633.2571 or 1.800.356.7865, ext. 32571, or go to **cefcu.com/invest**.

This material was prepared by MarketingPro, Inc., and does not necessarily represent the views of the presenting party, nor their affiliates. This information has been derived from sources believed to be accurate. Please note - investing involves risk, and past performance is no guarantee of future results. The publisher is not engaged in rendering legal, accounting or other professional services. If assistance is needed, the reader is advised to engage the services of a competent professional. This information should not be construed as investment, tax or legal advice and may not be relied on for the purpose of avoiding any Federal tax penalty. This is neither a solicitation nor recommendation to purchase or sell any investment or insurance product or service, and should not be relied upon as such. All indices are unmanaged and are not illustrative of any particular investment.

Citations.

1 – fool.com/retirement/2018/01/02/lifetime-income-retirees-need-it-and-heres-how-to.aspx [1/2/18]

2 – ssa.gov/planners/retire/r&m6.html [1/25/18]

3 – cbsnews.com/news/the-top-retirement-decisions-facing-older-workers/ [1/25/18]

4 – nber.org/papers/w24226.pdf [1/18]

CEFCU® Investment Services

Advisor Spotlight: Meet the Team

Andrew Felix
Financial Advisor
afelix@cefcu.com

Carl Gomez
Financial Advisor
cgomez@cefcu.com

Laurie Hild
Financial Advisor
lhild@cefcu.com

Joni Hootman
Financial Advisor, CRPC®
jhootman@cefcu.com

Chris Jackson
Financial Advisor
cjackson@cefcu.com

Saul Juarez
Financial Advisor
sjuarez@cefcu.com

Cindy Sherman
Registered Representative
csherman@cefcu.com

Five Retirement Concerns Often Overlooked

Retirement is a major life and financial transition. In looking forward to our "second act," we may overlook a few matters that are not immediately obvious (depending on our time horizon) that a thorough retirement strategy could address, including the impact of Required Minimum Distributions (RMDs), taxes, health care, and the rising cost of living.

RMDs

The Internal Revenue Service requires people to withdraw money from qualified retirement accounts after age 70½. This includes traditional IRAs and employer-sponsored retirement plans, such as a 401(k) and 403(b). It's important to remember the income from an RMD is fully taxable and cannot be rolled over into a Roth IRA. While this income can be helpful in retirement, if not planful about when to start withdrawing the money, it could put a retiree into a higher income tax bracket for the year.[1]

Taxes

Retirement does not necessarily imply reduced taxes. While people may earn less in retirement than they did while working, many forms of income are taxable, including: RMDs, investment income, dividends, most pensions, and even a portion of Social Security income (depending on a taxpayer's total income and filing status).

Health care costs

Those who retire in reasonably good health may not be inclined to think about the future cost of health care. But, as we age, medical situations can arise and be costly. Forbes noted in a recent white paper, called The Lifetime Medical Spending of Retirees, the average American retiree, age 70+, pays $122,000 for medical care — much of it from personal savings. The "donut hole" in Medicare still exists, and annually, there are retirees who pay thousands of dollars of their own money just for prescriptions.[2,3]

Long-term care needs

Those who live longer or face health complications may need long-term care. According to a study from the Department of Health and Human Services, the average American who turned 65 in 2015 could pay $138,000 in total long-term care costs.[4]

Another end-of-life expense many retirees overlook: funeral and burial costs. Pre-planning to address this expense may help surviving spouses and children.

CEFCU® Wealth Management

Rising consumer prices

Since 1968, consumer inflation has averaged around 4% a year. Over time, 4% inflation can affect purchasing power. In 20 years, continued 4% inflation would make today's dollar worth $0.46. So, it's a good idea to invest in a way that gives you the potential to keep up with increasing consumer costs.[4]

As part of your preparation for retirement, give these matters some thought. To discuss the potential for how these (and other) factors could impact your financial future, contact Kevin Barbier, Trust and Investment Officer and CERTIFIED FINANICAL PLANNER™ professional. Kevin is part of the CEFCU Wealth Management team and can provide sound, unbiased investment planning and management that follows the same standards that guide your Credit Union — looking out for your best interests. To schedule an appointment, please call 309.633.3836 or 1.800.633.7077, ext. 33836.

This material was prepared by MarketingPro, Inc., and does not necessarily represent the views of the presenting party, nor their affiliates. This information has been derived from sources believed to be accurate. Please note - investing involves risk, and past performance is no guarantee of future results. The publisher is not engaged in rendering legal, accounting or other professional services. If assistance is needed, the reader is advised to engage the services of a competent professional. This information should not be construed as investment, tax or legal advice and may not be relied on for the purpose of avoiding any Federal tax penalty. This is neither a solicitation nor recommendation to purchase or sell any investment or insurance product or service, and should not be relied upon as such. All indices are unmanaged and are not illustrative of any particular investment.

Citations.

1 – thebalance.com/required-minimum-distributions-2388780 [6/3/18]
2 – forbes.com/sites/nextavenue/2018/06/28/the-truth-about-health-care-costs-in-retirement/ [6/28/18]
3 – mdmag.com/physicians-money-digest/practice-management/four-big-retirement-threats-and-how-to-protect-yourself [8/2/18]
4 – money.usnews.com/money/personal-finance/saving-and-budgeting/articles/2018-04-13/6-ways-to-pay-for-long-term-care-if-you-cant-afford-insurance [4/13/18]

CEFCU®
Investment Services &
Wealth Management
7900 N. University Street
Peoria, IL 61615

PRESORTED
STANDARD
US POSTAGE PAID
PEORIA IL
PERMIT NO 512

Personal Banking Options, too!

If you need a full range of wealth management services, a member of CEFCU's Private Member Group can meet with you at your office or home — whatever is most convenient for you. Services include facilitating:

- Personal lines of credit
- Jumbo or specialized mortgages
- Construction financing
- And, much more!

Brad Schupp, CEFCU's Private Member Group manager, has over 25 years of experience serving members with diverse financial needs. Contact Brad at 309.633.7489 or 1.800.356.7865, ext. 37489 or at bschupp@cefcu.com.

Call Us Today!

CEFCU Investment Services

309.633.2571 or 1.800.356.7865, ext. 32571

Investments, College Savings Programs, Retirement Planning

CEFCU Wealth Management

309.633.3836 or 1.800.356.7865, ext. 33836

Investment Management, Retirement Planning, Estate and Financial Planning, Corporate Trustee, Living Trust Management, Estate Settlement

Private Member Group

309.633.7489 or 1.800.356.7865, ext. 37489

FR-2417592.1-0219-0321

CEFCU Investment Services & Wealth Management is a marketing name used by CEFCU. Securities sold, advisory services offered through CUNA Brokerage Services, Inc. (CBSI), member FINRA/SIPC, a registered broker/dealer and investment advisor. CBSI is under contract with the financial institution to make securities available to members. Trust services available through Members Trust Company, a federal thrift regulated by the Office of the Comptroller of the Currency. **Not NCUA/NCUSIF/FDIC insured, May Lose Value, No Financial Institution Guarantee. Not a deposit of any financial institution.**
FR-2035796.1-0218-0320