

Boomers as Seniors: *Retiree Strategies for Credit Unions*

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Common Purpose. Uncommon Commitment.



Agenda

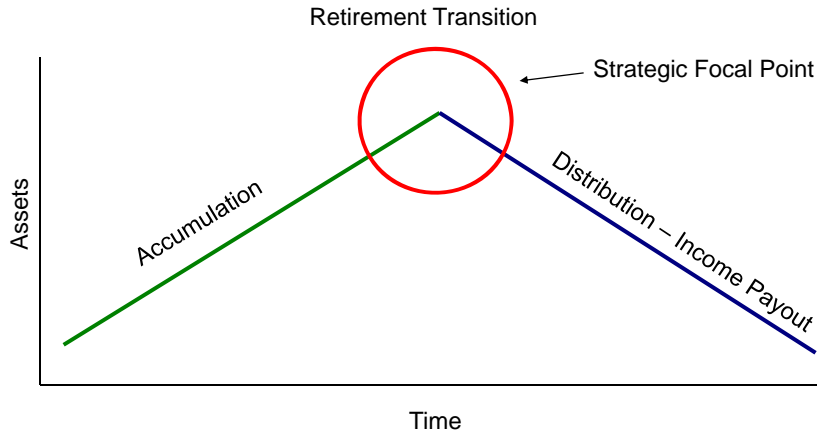
- Why Credit Unions Should Care About Retirement
- A Review of the Current Financial Crisis
- How the Crisis has Impacted Retirement Planning
- Getting Back to Retirement Basics
- Recommendations

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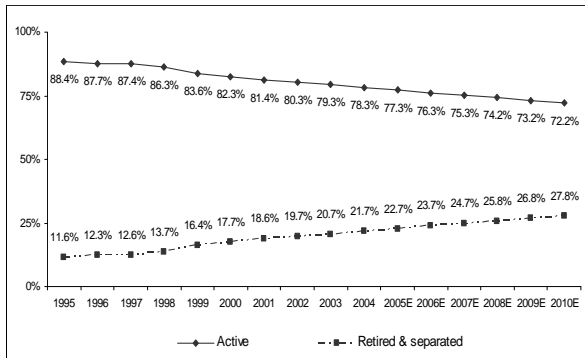
The Retirement Asset Lifecycle



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Moving from Asset Accumulation to Income Generation

401(k) Participants by Type, 1995 - 2010 (%)

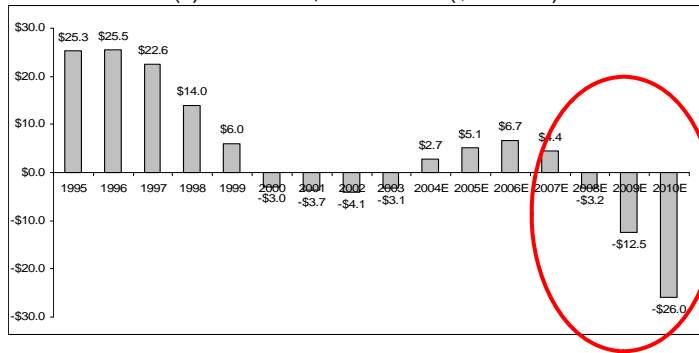


Sources: Vanguard, Fidelity, Department of Labor, Cerulli Associates

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Moving from Asset Accumulation to Income Generation

401(k) Net Flows, 1995-2010 (\$ Billions)

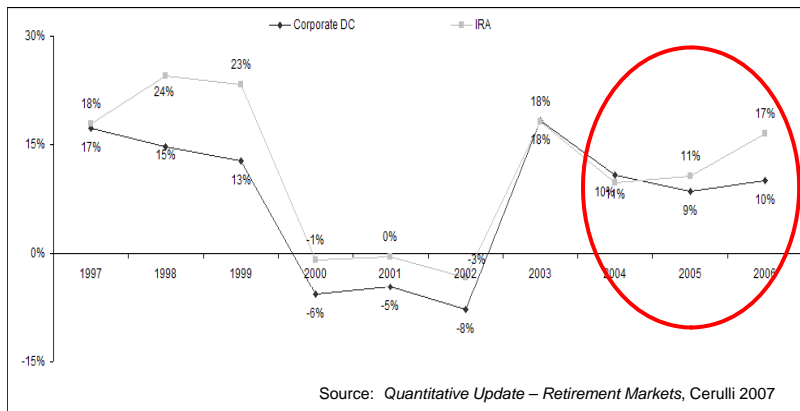


Sources: Department of Labor, Cerulli Associates

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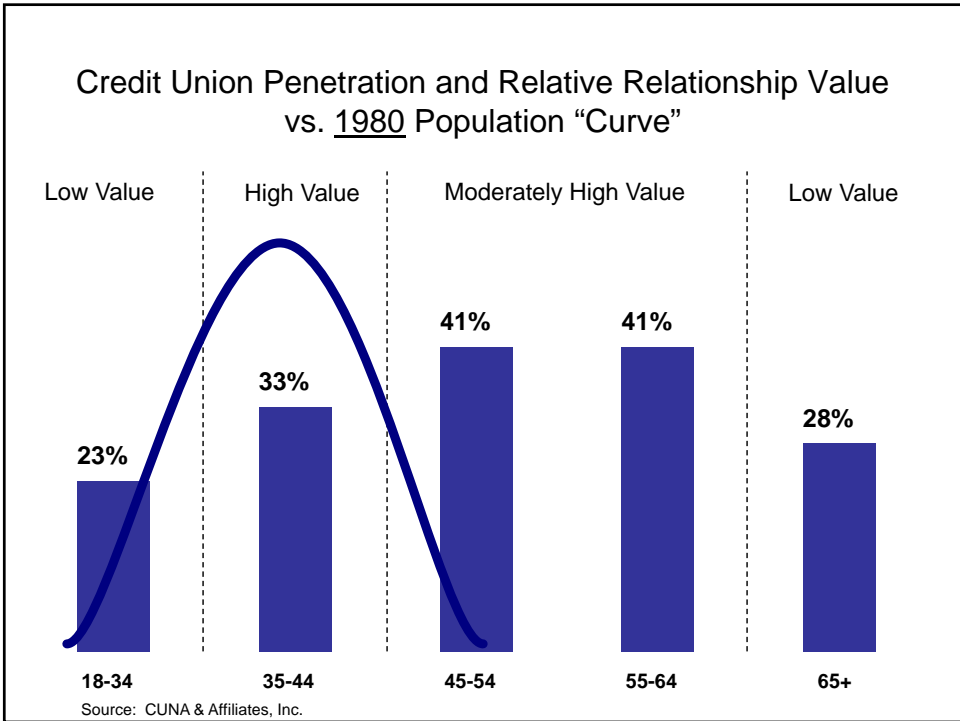
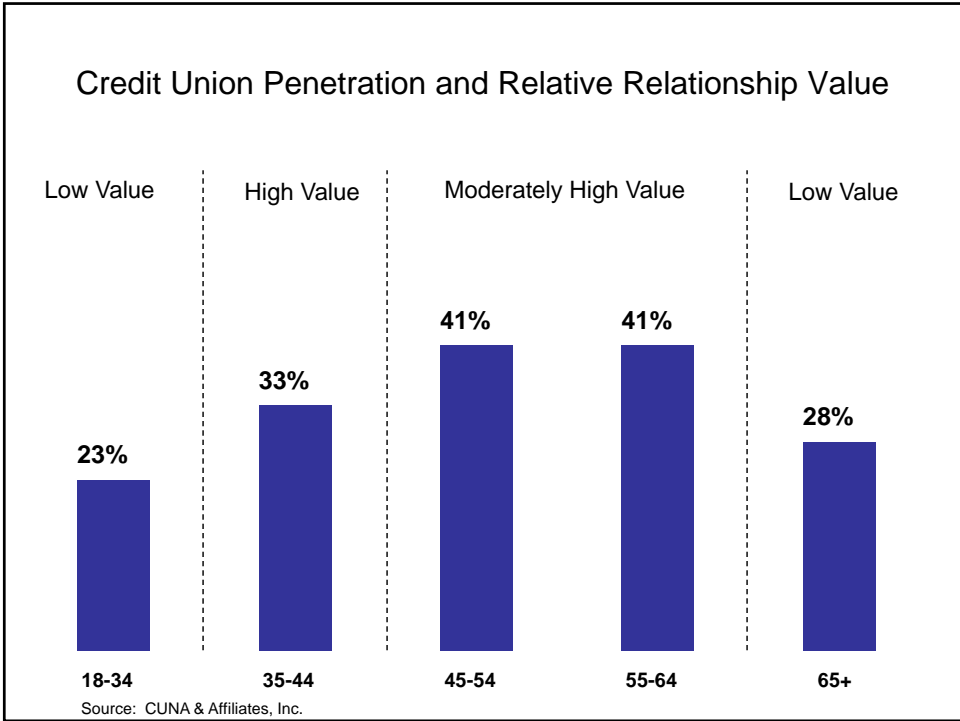
Moving from Asset Accumulation to Income Generation

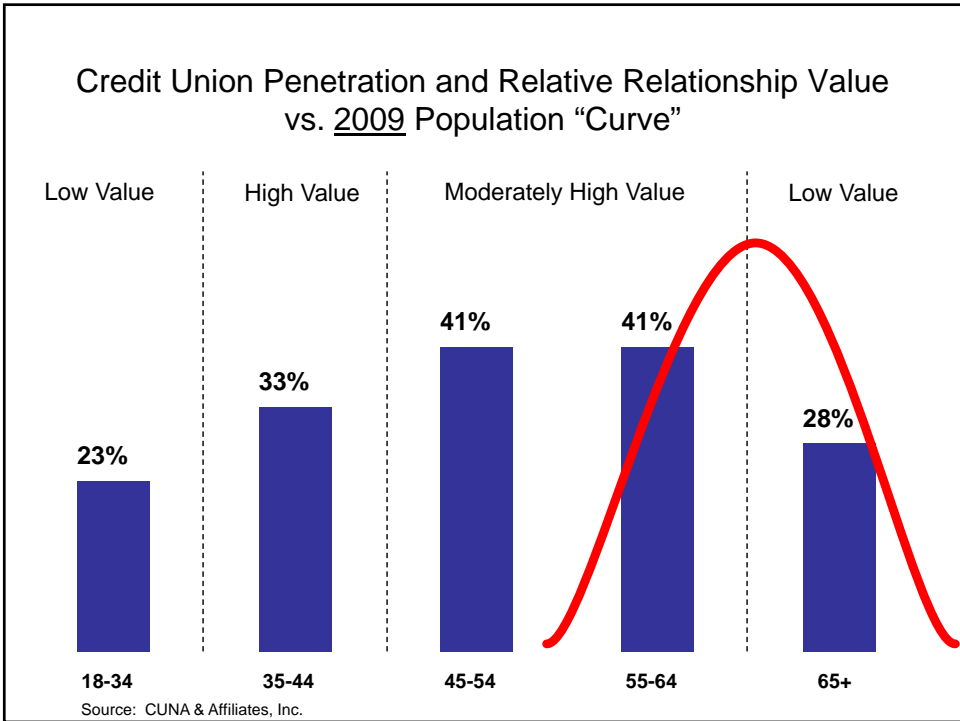
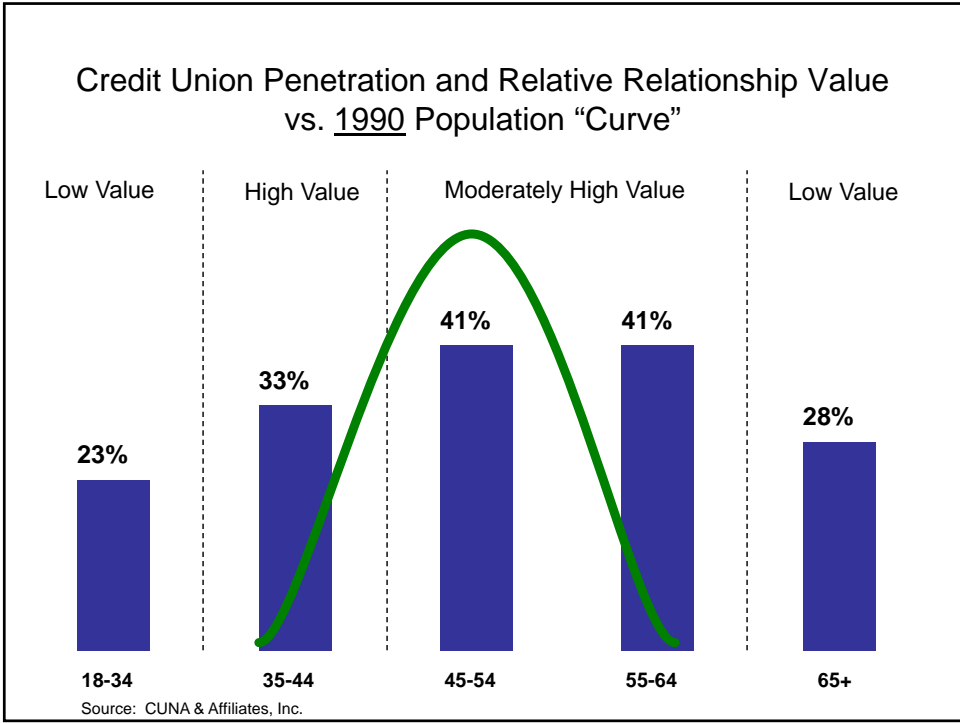
IRA Asset Growth Exceeding DC Plan Asset Growth

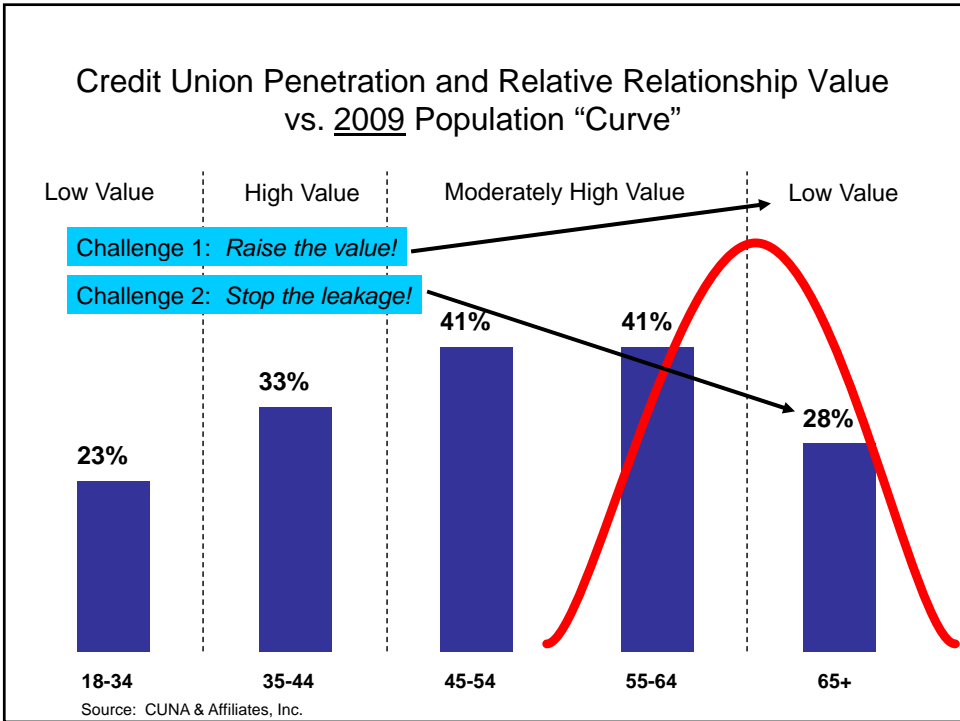
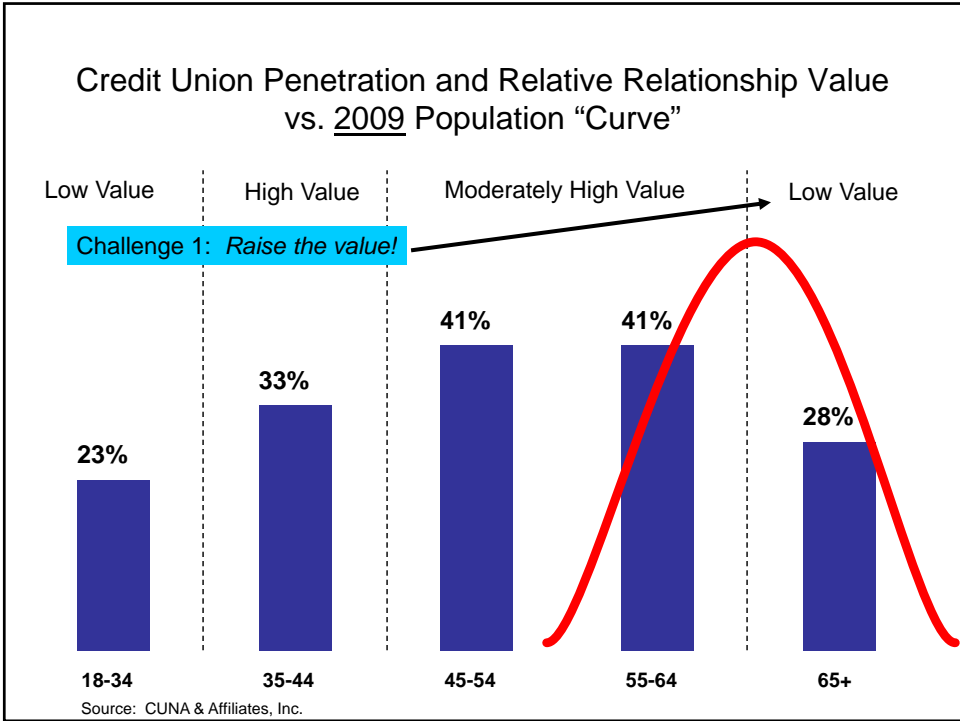


Source: Quantitative Update – Retirement Markets, Cerulli 2007

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A Review of the Current Financial Crisis



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What the heck happened?

- Credit markets froze in late 2007
 - Started with sub-prime, moved to investment-grade MBS
 - Credit markets were frozen
 - Money markets nearly locked up, some “broke the buck”
- U.S. Treasury market soared in a flight to safety
- Commodity markets exploded, then imploded
- Global stock and bond markets fell precipitously
- The real economy entered its steepest decline in decades

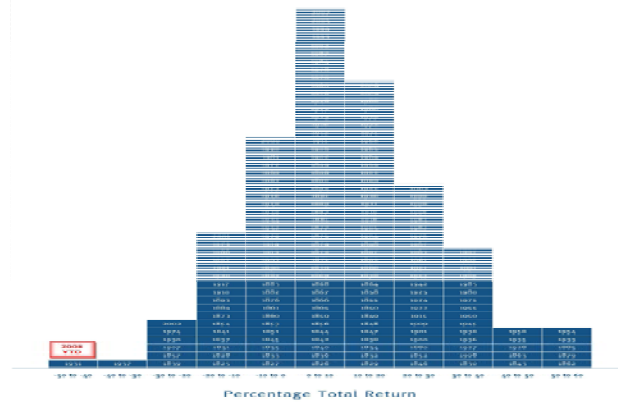
Most people still don't know how bad it actually was

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Annual U.S. Stock Market Index Returns Since 1825



From: Value Square Asset Management, Yale University

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Why were we so vulnerable?

- Large and unsustainable build up of corporate and household debt
- Proliferation of asymmetric risks in “shadow banks”
- Derivatives created invisible linkages between asset classes
- Globalization and economic integration caused geosynchronous decline

Could this have a profound impact on investments in the future?

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The Reaction to the Crisis

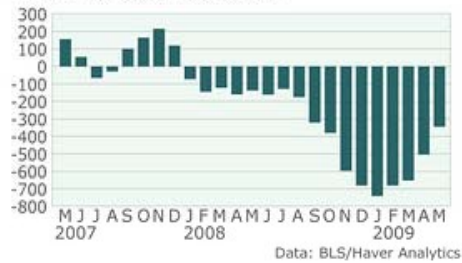
- The federal government steps in
 - Transfer of leverage / risk from private to public balance sheets
 - Massive budget deficits as far as the eye can see
- In a huge reversal, we've quickly become net savers
 - A substantial economic headwind
 - De-leveraging will likely run its course over several years
- Return OF investment preferred over return ON investment
 - Increased risk aversion could be with us for a long time
- Investors adjusting their strategies and lowering expectations

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“Green Shoots”

Nonfarm payroll growth

Monthly change in thousands



Or are they “Yellow Weeds”?

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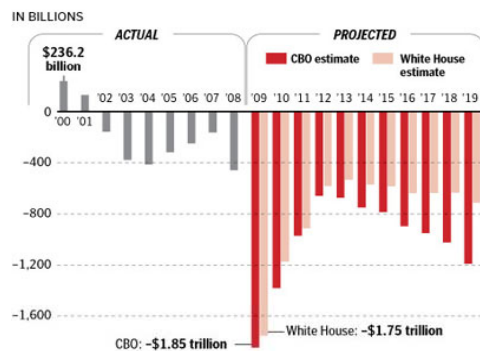
The Next Major Economic Challenge

Alan Greenspan:

“I fear that we may have already committed more physical resources to the baby-boom generation in its retirement years than our economy has the capacity to deliver.”

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A Massive Price Tag!



A major long-term economic and financial market headwind!

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A Massive Price Tag!



Guess who's going to pay for it all...

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What now?

"I did everything right: I diversified my portfolio, I invested based on my risk tolerance and time horizon, I rebalanced regularly regardless of market conditions, and I stayed the course when things got tough. After all of that, I still got killed. Something has to change!"

A common complaint among individual and institutional investors

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How the Crisis Has Impacted Retirement Planning

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The Pig in the Python

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TURNING 62 Day 4

Day 1 Day 2 Day 3 Day 4 Day 5

Big lump sums carry big risks for retirees

Will Congress ever cut retiree benefits?

The retirement boom begins

The leading edge of the vast baby boom generation hits a milestone: eligibility for early retirement. As the oldest boomers turn 62 in 2008, many will choose to start taking Social Security benefits early. Early retirees will also need to arrange for health insurance. And decide how to handle lump-sum retirement payouts -- while dodging would-be scammers. Their decisions will be fateful ones.

By Anne Carey, Jerry Mosamak and Larry Webb, USA TODAY



- How will baby boomers' retirement be different from their parents?
- This is the first generation that has largely had the responsibility for managing their own retirement savings. What challenges do baby boomers face in managing this lump sum?
- How does a retiree figure out where to put their retirement money and what to put it in?
- How do they avoid being scammed?
- How do they make sure their money lasts as long as they do?
- Any other advice for baby boomers confused about managing their money?

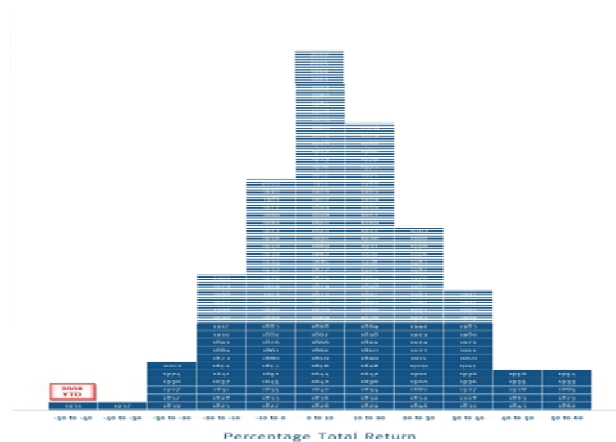
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The Retirement Challenge

- What sources of income should I draw upon and when?
- How do I get the most from my pension and Social Security?
- Should I rollover my 401(k) plan?
- How should I invest to maximize my income?
- How can I minimize my taxes?
- What can I do to ensure my health care needs are met?
- How much can I really spend?
- How do I go about setting up a regular income stream?
- How much can I leave my heirs?
- *Am I financially prepared to retire?*

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Annual U.S. Stock Market Index Returns Since 1825



From: Value Square Asset Management, Yale University

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How the Crisis Has Impacted Retirement Planning

According to the Employee Benefit Research Institute:

- Only 13% of workers feel very confident they will have enough money for retirement – a 50% decline from 2007
- Over 28% of workers said they have adjusted their retirement age:
 - 89% of those intend to postpone retirement to improve finances
 - 21% of those plan to work “into their 70s”
 - 20% of those plan to “work until they die”
- The number of current workers expecting to work during “retirement” has grown to 72% (only 34% of current retirees work for pay)
- Only 44% of workers have calculated retirement savings needs
- Only 20% of current retirees feel very confident about their retirement security

One in four workers age 56 to 65 held 90% or more of their 401(k) investments in common stocks. Two in five held 70% or more.

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The Current State of Retirement



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July 29, 2002!



The Current State of Retirement?

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Getting Back to Retirement Basics: A Strategy for Credit Unions

Retirement: A Completely Different Game

WORKING YEARS	RETIREMENT YEARS
Investments to buy Time is a friend Market drop is buying opportunity Paycheck guides spending Wages go up with inflation "Routine" health care for self and others Financially support children	Investments to sell Time is a threat Market drop is income crisis No regular paycheck Income is fixed More significant health care issues Children self-sufficient

Successful retirement planning requires recognition of how much things will change

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Six Major Retirement Risks / Hazards

1. Longevity Risk – Outliving your money
2. Withdrawal Risk – Taking out too much
3. Health Care Risk – The great unknown
4. Inflation Risk – Protecting purchasing power
5. Return Sequence Risk – Negative investment returns just before retirement
6. Emotional Risk – Managing fear and greed!

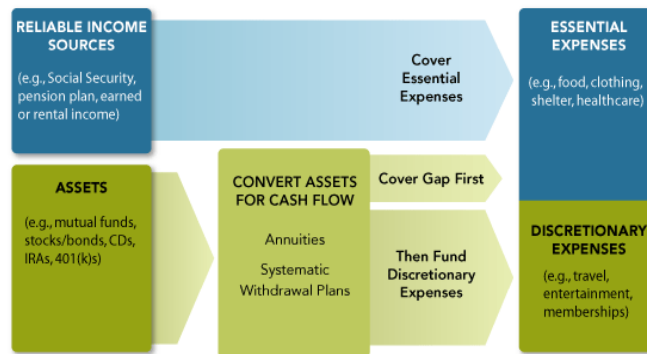
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Four Retirement Management Challenges

1. Income Management
2. Portfolio Management
3. Estate Management
4. Risk Management

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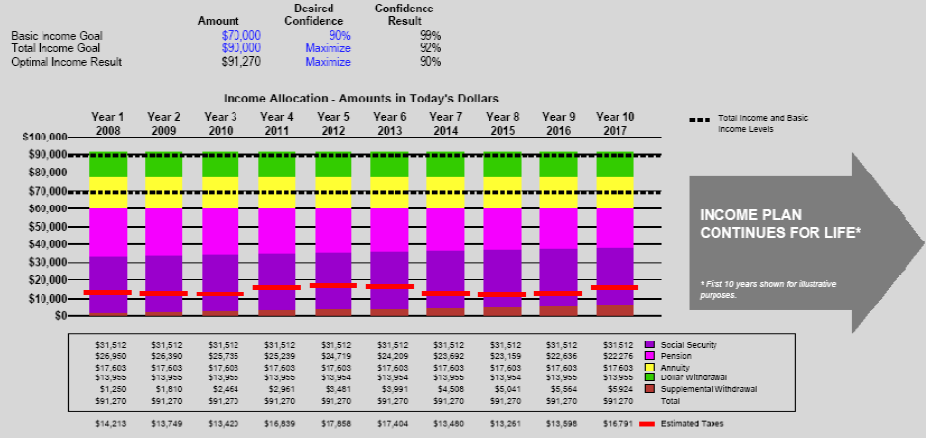
Income Management



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Income Management

OPTIMIZED INCOME PLAN



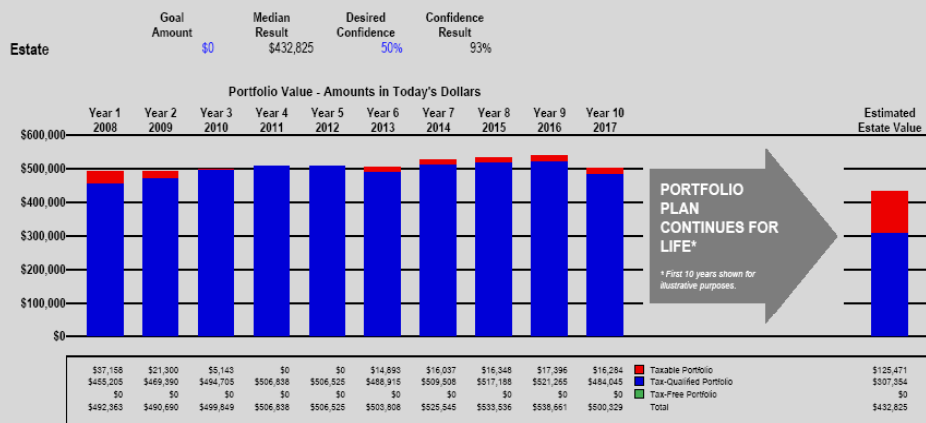
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Portfolio & Estate Management

OPTIMIZED PORTFOLIO AND ESTATE PLAN



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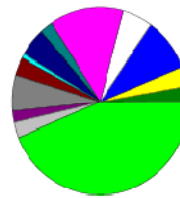
Portfolio & Estate Management

Portfolio Comparison

Current



Proposed



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Risk Management

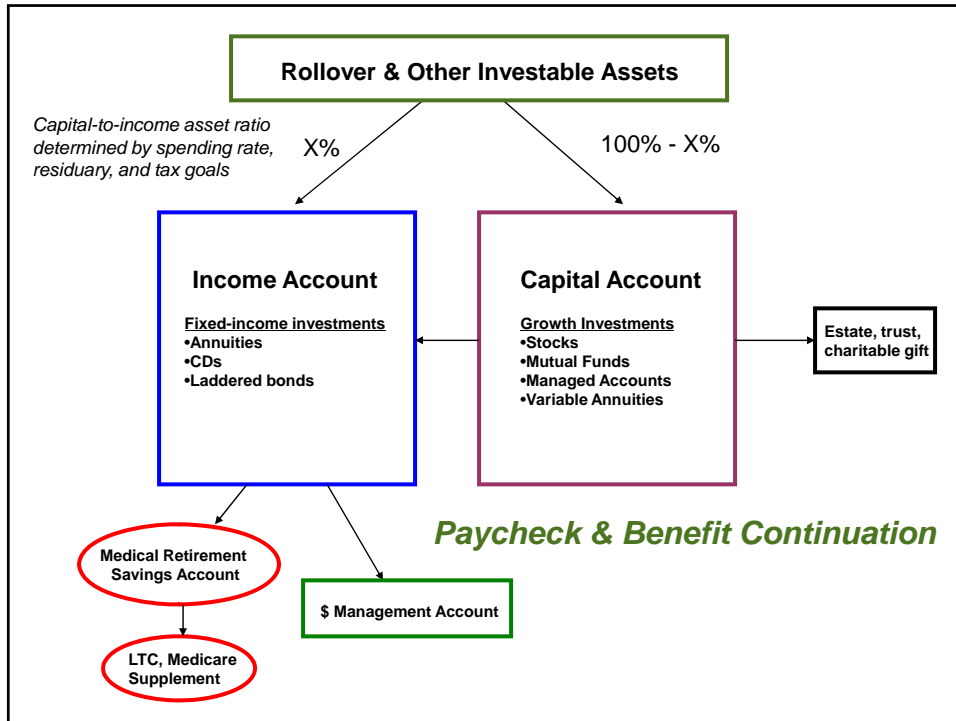
Risks of asset depletion due to:

- Rising demand for expensive healthcare services
- Medical inflation
- Long-term care
- Premature death

Coverages:

- Medicare supplement
- Long-term care insurance

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INSURANCE SERVICES ASSET MANAGEMENT

Our Recommendations

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Recommendations

- Address the retirement challenge at the highest level of your organization
 - Adopt a comprehensive retirement strategy
 - Communicate that strategy to employees and train them to recognize and meet members' retirement needs
- Position your credit union as a retirement resource center
 - Provide services that address six retirement risks and four retirement management challenges
- Meet retirement needs before your members retire
 - Offer retirement planning services to SEG employees
 - Consider selling 401(k) plans

Introduce your paycheck and benefit continuation plan!

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