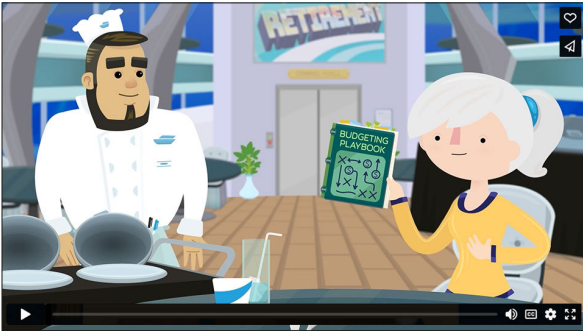


Content Pack GY3 CONTENTS

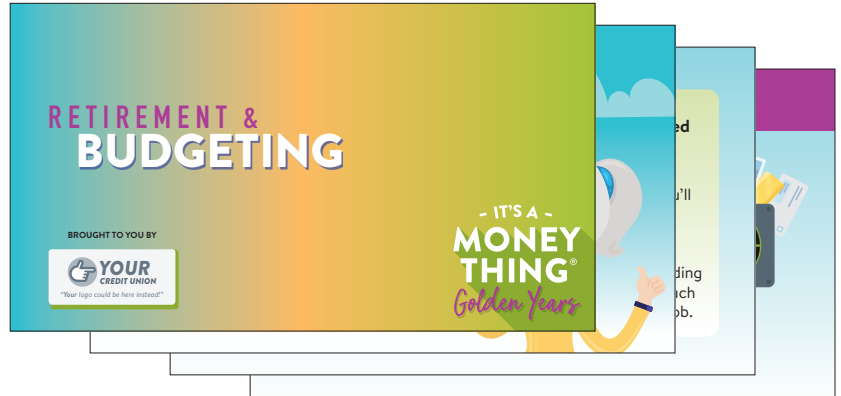
- IT'S A -
MONEY THING[®]
Golden Years



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RETIREMENT & BUDGETING

BUDGETING FOR RETIREMENT IS ESSENTIAL

In fact, it will allow you to relax and enjoy life!

Creating a retirement budget can significantly enhance your peace of mind and reduce financial stress during your golden years. By carefully planning your finances, you can avoid the common pitfall of depleting your savings too quickly.

How do you budget for retirement?

Determine how much income per month you'll have in retirement from all sources. Then add up all your monthly expenses.

Your income needs to exceed your expenses

If it's the other way around, you'll need to make adjustments like cutting expenses or finding more income such as a part-time job.

With just a few straightforward steps, you can develop a budget that meets your obligations while still allowing for plenty of enjoyment.

1 Add up your income sources

First, add up all your retirement savings, including 401(k) and IRA plans, as well as any other registered accounts. If you're a business owner, include income from the sale of your business.

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Understanding the 4% Rule of Retirement Withdrawals

The 4% rule is a widely accepted guideline for determining how much to withdraw from your retirement savings each year without running out of money. Developed by financial planner William Bengtson in 1994, this rule has become a cornerstone of retirement planning. Here's a closer look at what the 4% rule entails, its rationale and its application.

What is the 4% rule?

The 4% rule suggests that retirees can withdraw 4% of their retirement savings in the first year of retirement and then adjust that amount each year to reflect any inflation over the 30-year period. This approach aims to provide a steady income stream while preserving the longevity of the retirement portfolio.

For example, if you have \$1 million saved for retirement, you would withdraw \$40,000 in your first year of retirement. If inflation is 2% the following year, you would increase your withdrawal to \$41,600.

The rationale behind the 4% rule

Several researchers, often referred to as the Trinity Study, analyzed historical data on equities and bonds returns over a 30-year retirement period. The conclusion was that a 4% initial withdrawal rate, based on the average annual inflation rate, would have a 95% chance of lasting through most retirement periods. This rule assumes a diversified portfolio with a mix of stocks and bonds, typically 50% to 75% in stocks and the rest in bonds.

Application of the 4% rule

1. Initial calculation: Calculate 4% of your total retirement savings to determine your first year's withdrawal amount. This sets the baseline for your retirement income.
2. Adjusting for inflation: Each year, increase the previous year's withdrawal amount by the inflation rate to maintain purchasing power. This adjustment helps protect against the erosion of your income's value due to rising costs.
3. Review and flexibility: While the 4% rule provides a solid starting point, it's not set in stone. Regularly reviewing your portfolio performance and adjusting your withdrawal rate based on market conditions and your needs is crucial.

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Budgeting for retirement is essential

Creating a retirement budget can significantly enhance your peace of mind and reduce financial stress during your golden years. With just a few straightforward steps, you can develop a budget that meets your obligations while still allowing for plenty of enjoyment.

1 Add up your income sources

First, add up all your retirement savings, including 401(k) and IRA plans, as well as any other registered accounts. If you're a business owner, include income from the sale of your business.

2 Identify your expenses

Next, list all your monthly expenses, including housing, utilities, food, transportation, and entertainment. Be sure to include any debt payments and taxes. This step helps you understand your current financial obligations and how they might change in retirement.

3 Account for healthcare costs

Healthcare is a significant expense that often increases with age. Estimate your future healthcare needs, including long-term care, and factor these costs into your budget. Consider options like Medicare, Medicaid, and private long-term care insurance.

4 Don't forget about fun

While it's important to cover your essential needs, don't forget to allocate funds for leisure and hobbies. This helps ensure you can enjoy your retirement and maintain a good quality of life.

5 Calculate fixed vs. flexible costs

Identify which expenses are fixed (like housing and utilities) and which are flexible (like dining out and entertainment). This allows you to see where you have more control over your spending and make adjustments as needed.

Seek professional advice

Consulting a financial advisor can provide valuable guidance to help you navigate these decisions effectively.

BY YOUR CREDIT UNION

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