



# RETIREMENT PLANNING

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Chemung Canal Trust Company

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## Choosing a Traditional or Roth IRA?

**In this issue, we help you start planning for your retirement!**



### INSIDE THIS ISSUE:

Choosing a Traditional or Roth IRA?	1
The Importance of Education for Retirement Plan Participants	2
Retiring at age 62 and collecting Social Security benefits	3
Are your beneficiaries up to date?	3
Seminar Invitation	4
Resources to Help	4

Traditional IRAs and Roth IRAs share certain general characteristics. Both feature tax-deferred growth of earnings and allow you to contribute up to \$5,000 (in 2009 and 2010) of earned income, plus an additional \$1,000 "catch-up" contribution if you're 50 or older. Both allow certain low and middle income taxpayers to claim a partial tax credit for amounts contributed. But important differences exist between these two types of IRAs. In fact, the Roth IRA is in some ways the opposite of the traditional IRA.



A traditional IRA allows anyone with earned income who is under age 70½ to contribute the maximum \$5,000 in 2009 and 2010, plus the 'catch-up' if eligible. However, your ability to deduct traditional IRA contributions will depend on your annual income, your filing status and whether you or your spouse is covered by an employer-sponsored plan. You may be able to deduct all, a portion, or none of your contribution for a given year. Any distribution from a traditional IRA will be subject to income taxes to the extent that the distribution represents earnings and deductible contributions. You may also be hit with a 10 percent early withdrawal penalty if you draw money out before age 59½ (there are exceptions to this rule). Beginning at age 70½, you must begin to take annual distributions from a traditional IRA.

With a Roth IRA, no age limitation applies to contributions. As long as you have taxable compensation and qualify, you can contribute to a Roth IRA even after age 70½. However, your ability to contribute and the amount you'll be able to contribute (up to the annual limit) will depend on your income and tax filing status. Although Roth IRA contributions are not tax deductible, Roth IRAs have other advantages. You're not required to take distributions from a Roth IRA at any age, which gives you more estate planning options. Another key strength: Qualified withdrawals will avoid both income tax and the early withdrawal penalty if certain conditions are met. Nonqualified withdrawals will be taxed and penalized only on the earnings portion of the withdrawal, since the principal is your own after-tax money.

Your personal goals and circumstances will determine which type of IRA is right for you. If you wish to minimize taxes during retirement or preserve assets for your heirs, a Roth IRA may be the way to go. A traditional IRA may make more sense if you can make deductible contributions and want to lower your taxes while you're still working.

Chemung Canal Trust Company's Retirement Services Group can assist you with the proper information you will need to select the best IRA that meets your goals.



**The question isn't  
at what age you  
want to retire,  
it's at what  
income?**



## The Importance of Education for Retirement Plan Participants

Investment markets are full of volatility. It is more important than ever to provide retirement plan participants with the information they need to secure their financial future. It is likely that government programs such as Social Security will play a less significant role for today's employees than they did for prior generations. In addition, many corporations have moved away from defined benefit plans that offer guaranteed pension benefits. This movement toward 401(k) plans and other defined contribution plans has placed more of the responsibility for retirement savings on to the employees. Additionally, with these contributory retirement plans, the employee bears the investment market risk.

Despite the increase in popularity of 401(k) plans, many employees do not fully comprehend their employers' retirement plan provisions or the importance of saving for retirement early on in their careers. This lack of knowledge can lead to procrastination and decreased plan participation. Far too often, employees fail to gain the financial independence that they desire because they simply don't take that first step getting started.

Some employees get past the first hurdle only to become overwhelmed by the various investment options offered in their retirement plans. Participant investment direction is a common feature of today's retirement plans, yet most employees are not equipped to make sound investment decisions. This, too, can lead to decreased plan participation. Moreover, improper decision making regarding plan investments can be a costly mistake.

At Chemung Canal Trust Company, we strongly believe in the importance of providing education to retirement plan participants. **Group education sessions** can provide employees with an explanation of their retirement benefits. They are also a forum to provide information regarding the importance of asset allocation and the risk/return characteristics of the various retirement plan investment options. **Individual employee appointments** provide more personalized assistance to employees, offering them an opportunity to ask personal questions and receive guidance on their particular situations. Distributing informational booklets on the retirement plan and providing retirement planning newsletters are other methods that can be used to help educate participants.

There are many advantages to educating employees. It enables employees to recognize that 'they have the ability to secure their own financial futures'. It helps employees to utilize their benefit programs more efficiently, often increases participation in the retirement plan, and leads to an increased accumulation of retirement benefits. In addition, employee education may lead to a greater appreciation for the benefits that employers are offering, thereby improving company morale.

Chemung Canal Trust Company's Retirement Services Group recognizes that a "one size fits all" approach to employee education is not effective. Time constraints, multiple locations and employee demographics can play an important role in determining the most effective methods of providing education. We take pride in working with employers to build an educational program that can meet their needs, as well as the needs of their employees.

## Retiring at age 62 and collecting Social Security Benefits

There's no right time to begin collecting Social Security benefits, but the age at which you begin receiving benefits will affect how much retirement income you have, so you should weigh the consequences carefully.

Keep in mind that if you collect Social Security before your full retirement age, your benefit will be permanently reduced. Depending on the year you were born, you'll receive between 25 and 30 percent less per month if you collect benefits at age 62 than if you wait until full retirement age to begin collecting benefits. However, this doesn't necessarily mean that collecting benefits at age 62 is unwise. In fact, unless you live to an especially old age, you may actually end up with more money if you start collecting Social Security benefits at age 62 than if you wait until full retirement age, because you'll receive more benefit checks.

However, there are also good reasons to wait until full retirement age to start collecting benefits. For example, if you work full-time past age 62, you'll have the opportunity to increase your eventual retirement benefit, particularly if you are in your peak earnings years, because your benefit will be figured using your 35 highest earnings years. Additionally, if your other sources of retirement income are limited, you may want to receive as much as possible from Social Security each month.

Other things to consider include whether other people will be eligible to receive benefits based on your work record, your eligibility for Medicare and your estimated life expectancy. The Social Security Administration has several online benefit estimators available at [www.ssa.gov](http://www.ssa.gov) that can help you make an informed decision. Please note, at our May 25th retirement seminar, we will have a representative on hand to discuss Social Security retirement benefits. Call today (607-737-3790) and reserve your seat for the seminar.

### Are your beneficiaries up to date?

Your will is not the only thing that will transfer your assets to your heirs upon your death. Certain types of assets are transferred directly to heirs through a beneficiary designation. A beneficiary designation is a legal form where you name the person who will receive the assets upon your death. Beneficiary designations override provisions you make in your will. Assets that pass by beneficiary designation include:

- Insurance (life, accidental death and dismemberment, etc.)
- Retirement plans (IRAs, 401(k) plans, Keoghs, etc.)
- Certain annuities
- Brokerage accounts with transfer on death (TOD) designations
- Payable on death (POD) accounts

It's important to review and update your beneficiary designations when you experience a significant life event such as marriage, divorce, death, birth, or adoption, and when tax laws change or there is a change in your overall financial situation. Why? Because outdated beneficiary designations (deceased parents, ex-spouses, etc.) could misdirect the flow of your entire estate plan, resulting in unintended heirs and negative tax consequences. If you haven't reviewed your beneficiary designations in a while, now may be a good time to do so



**Contact a CCTC  
Trust Investment  
Specialist to help  
guide you along  
the path to  
achieving your  
retirement goals.**





YOU AND A GUEST ARE INVITED TO A RETIREMENT INCOME  
PLANNING PRESENTATION

**TUESDAY, MAY 25, 2010**

**(REGISTRATION 6:00 P.M.)**

**6:30 P.M. – Program – HORSEHEADS HOLIDAY INN EXPRESS**

*REFRESHMENTS & DOOR PRIZES PROVIDED*

**R.S.V.P. – (607) 737-3790**

If you are nearing retirement and are unsure of what steps to take to maximize the possibility of a secure retirement, Chemung Canal Trust Company is here to help.

Please join us at this informative seminar. Larry Rudawsky, CCTC Vice President of Retirement Services Group, will be joined by Michael Kuntz, District Manager of Social Security Administration and Laurie D. Sweeney, Executive Director of Woodbrook Assisted Living Residence as presenters.

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## Additional Online Tools

- ◆ To manage your budget, check out Analyze Now's Post Retirement Budget ([analyzenow.com](http://analyzenow.com)). Click on Free Programs for this download, which lists 35 separate expenses, with room to add six more.
- ◆ Check out CNNMoney.com's Retirement Planner ([cnnmoney.com](http://cnnmoney.com)). They offer simple calculators to help you evaluate your savings strategy. To access go to Personal Finance, then Retirement, click on Calculators.

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