

# FINANCIAL WISDOM

MARCH 1998

## Welcome to *FinancialWisdom!*

We are happy to introduce another new service to our members. Our quarterly *FinancialWisdom* newsletter will help you better understand your finances and inform you of all our products and services. We believe that individuals that are better informed make better financial decisions. And, your financial success is our reason for being.

### The Value of Your DFCU Membership

Your credit union offers several advantages over other financial services companies.

- *Our way of doing business.* We exist to serve the needs of our members. We put the needs of our members first both with our products

and how we treat our members.

- *Full range of financial products.* Whether it is financing a new car, buying a home or investing for retirement, your credit union has the products and services to help you reach your goals.

- *Attractive rates.* As a credit union, we can offer very attractive saving and borrowing rates to our members. You owe it to yourself to see how our rates compare.

These "member" benefits are also available to your family. Your membership allows those in your family to become members and take advantage of all our offerings.

We want you to think of your credit union as the source for all your financial and investment needs. Saving, borrowing and investing for you and your family are all made easier with us.



## The Future of Social Security?

Our Social Security System continues to be a lively topic of discussion. As the baby-boom generation starts to retire, the system's financial stability will be threatened. Today there are 3.3 workers for each retiree. By 2040, there will be less than two.

Changes must be made soon to assure benefits for future retirees. There have been proposals to change the funding mechanism and allow workers to have more say over how "their" funds are invested. Others suggest creating a mandatory savings program to supplement the current system. President Clinton recently suggested any budget surplus be dedicated to Social Security. Another solution would be to raise taxes.

Over the next few years, this topic will receive considerable attention. Stay tuned.



Dennison Federal Credit Union wants to earn your business.



### Inside this issue

This Quarter's Mistake to Avoid	2
IRA Alternatives	2
Asset Allocation	3
Home Equity Line of Credit	4

## This Quarter's Mistake to Avoid

**M**aking mistakes can be part of the education process. But, making financial mistakes can be expensive. Learning from others' mistakes is a better idea.

### Mistake to Avoid.

Not taking full advantage of your employer's retirement plan.

A financially secure retirement is many people's main financial goal. Longer life spans, more active retirements, rising costs and uncertainty over Social Security make the need for a substantial retirement nest-egg greater than ever. Luckily, many companies now have better retirement plans that offer employees control over building that nest-egg.

Defined contribution plans, or 401(k) plans, enable employees to contribute part of their wages to their retirement plan on a tax deferred basis. Salary deferral is a convenient way to save. Your plan may have limits on the percentage

of your wages you can direct into the plan. But, if you can, try to contribute as much as you can, up to the current \$9,500 limit.

With a 401(k) plan, usually the company will make some matching contribution on behalf of each employee.



The match is based on the employee's earnings for the year and the amount of wages the employee contributes to the plan. Review the details of your plan to make sure you are contributing enough to get

the maximum contribution from your employer. When someone else is helping save for your retirement, it only makes sense that you get as much as you can. Some companies may also make additional contributions based on their financial results.

Another benefit is the ability to defer taxes on any earnings within the qualified plan. Having all your money compounding and growing, rather than having to use some to pay tax, can help balances grow even faster. You still have to pay tax when you take money from the plan, but, being able to defer the taxes can make a difference over time.

The combination of enabling saving on a tax-favored basis, and having the company contribute, can make your company's retirement plan a key part of planning your financially secure retirement.

Deferring taxes helps your money grow faster. Take full advantage of your retirement plan.

## IRA Alternatives

IRAs continue to be a powerful retirement planning tool. For almost 20 years IRAs have been available for annual contributions or to receive lump sum distributions from company retirement plans. Recent changes in the tax laws have added new dimensions.

The new Roth IRA provides for the tax-free growth and flexible, potentially, tax-free distributions. Many individuals that could not use a traditional IRA due to income levels or participation in company retirement plans can now use Roth IRAs.

If you qualify for both types of IRAs, the primary issue is whether the current deduction for a traditional IRA contribution outweighs the future benefit of tax-free distributions from a Roth IRA. The longer the

money can be left in the IRA, the more likely a Roth IRA will serve you best.

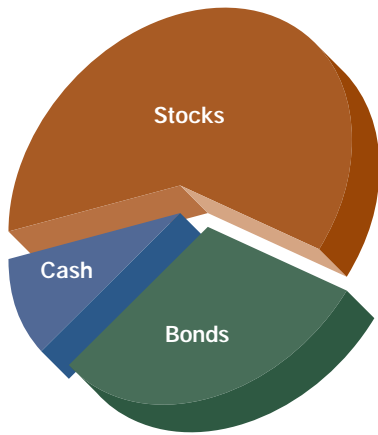
The new law also allows for the conversion of existing IRAs into Roth IRAs in certain cases. However, taxes must be paid at the time of conversion. If you plan to leave your monies in the IRA for at least 5 to 10 years and can pay the current tax from other sources, conversion should be considered. Consult your advisor.

While the rules for IRAs can be confusing, the potential tax benefits can be significant. Individuals owe it to themselves and their families to review the potential benefits of IRAs. The proper actions taken now can help achieve a financially secure retirement.

## Asset Allocation

### Your Most Important Investment Decision

The most important step in your investment decision making process is having your assets appropriately divided into stock, bond and cash investments.



The right mix should be based on your needs and how you feel about risk. That mix will probably have a greater influence on your future wealth than your choices of individual stocks, bonds and mutual funds. Some studies have shown that over 90% of the return on your portfolio is determined by the type of investments rather than by the individual investments you own.

Asset Allocation is the term used to describe how your investments are divided into those three classes of stocks, bonds and short-term cash investments. Each has different risk characteristics and historical returns. And as you would expect, the higher the return the higher the risk.

Over the past 25 years, stocks (S&P 500 index) have averaged about 12% annual returns. Long-

term U.S. Government bonds have averaged about 9.5% and cash investments averaged about 7%. However, over that period, there were five years when stocks had negative returns, with 1973 and 1974 losses totaling 40%. Over that same period, long-term U.S. Government bonds had losses in seven years, but the largest loss was only about 8%. Cash investments had positive returns every year.

Determining your Asset Allocation should be based on your time horizon and risk tolerance. The longer your time horizon, the greater your stock allocation. The shorter your time horizon, the more bonds and cash investments you should consider. Below are some sample allocations based on age:

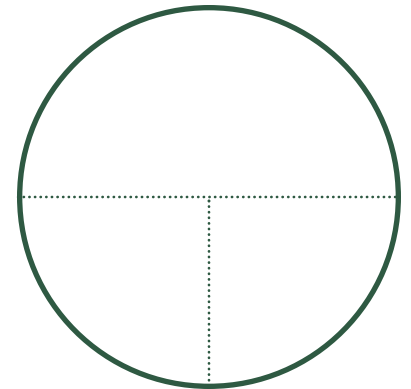
Age	Stocks	Bonds	Cash
30's	65%	25%	10%
40's	60%	30%	10%
50's	50%	40%	10%
60's	30%	55%	15%

After considering your time horizon, you should then take your feelings about risk into account. If you are comfortable with more risk, increase your stock allocation. If not, allocate more funds to bonds and cash investments.

To put this strategy into action start by summarizing your current positions. Be sure to include all your assets, such as those in retirement plans, IRA's, bank and investment accounts.

	Stocks	Bonds	Cash
Ret. Plan	_____	_____	_____
IRA	_____	_____	_____
Investments	_____	_____	_____
<b>Total</b>	_____	_____	_____
	_____%	_____%	_____%

Now, draw your own target Asset Allocation pie chart.



With your target allocation as a goal, you can then start to make any needed adjustments. As time goes on, be sure to modify your allocation to reflect any changes in your objectives and any changes in the value of your investments.

This simplified discussion of Asset Allocation can be used as a starting point for your own situation or for discussion with your professional advisor.

Asset Allocation can be a valuable tool to position your assets properly, provide a discipline to your investing and provide some peace of mind.

This educational newsletter is not meant as financial advice. Consult your financial advisor to determine how the information applies to your situation.

Asset Allocation should be based on your time horizon and risk tolerance.

Your Asset Allocation will change as your financial goals and needs change.

## Home Equity Line of Credit

From the Dennison Federal Credit Union

A home equity line of credit can be a powerful financial tool at your disposal. Simply stated, a home equity line of credit allows you to borrow money using the equity in your home as collateral. You can then use these funds for purposes of your choice. It may be to pay off credit card balances, buy a car, pay college costs or start a business. A home equity line of credit can give you peace of mind in knowing that funds are available if you need them.

The amount of credit available will depend on the equity in your home. If you have owned your home for a long period, you may be surprised. We also review your creditworthiness and your ability to handle additional debt.

You may also be able to save some income taxes with a home

equity line of credit. Interest on home mortgages is usually deductible. Of course, you should



consult your tax advisor about your situation.

There is no cost to arrange your line of credit and you are charged no interest until you actually borrow the money.

### Attractive rates from Dennison Federal Credit Union

The rates charged are variable. Payment plans can be arranged to fit your schedule.

While there are many financial institutions that offer home equity lines of credit, your credit union can work with someone who understands your needs.

We can make having that home equity line of credit available with minimal fuss. Just stop by any of our offices to discuss how a home equity line of credit can become a part of your financial future.

**Quote to live by**  
The highest use of capital is not to make money, but to make money do more for the betterment of life.

— Henry Ford



### Credit Union Locations

456 2nd St., Dennison  
123 Grant St., Stillwater  
987 Front St., Dover  
5678 W. Rte 800, Goshen



### State of the Markets

	3/31/98	12/31/97	9/30/97	6/30/97
Dow Jones Industrial Average	8868	7908	7945	7673
Interest Rate on 30 Year U. S. Bond	5.93%	5.95%	6.40%	6.78%
Interest Rate on 10 Year U. S. Bond	5.65%	5.75%	6.40%	6.48%
Prime Interest Rate	8.50%	8.50%	8.50%	8.50%

### Dennison Federal Credit Union

Rate on Regular Share Account	4.35%	4.56%	4.37%	4.46%
Rate on Share Draft Account	2.11%	2.21%	2.27%	2.35%
Rate on Auto Loans (new car 36 months)	7.95%	8.15%	8.00%	8.05%
Mortgage Rate on 30 Year Fixed	7.25%	7.00%	7.15%	7.75%
Mortgage Rate on 15 Year Fixed	7.00%	6.85%	7.10%	7.40%
Mortgage Rate on 3 Year ARM	6.75%	6.60%	7.00%	7.95%