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Canandaigua National Bank & Trust

OPTIMUM EXPERIENCE

NEWSLETTER FOR CANANDAIGUA NATIONAL BANK & TRUST OPTIMUM CHECKING CUSTOMERS

Saving for Retirement and a Child's Education at the Same Time

You want to retire comfortably when the time comes. You also want to help your child go to college. So how do you juggle the two? The truth is, saving for your retirement and your child's education at the same time can be a challenge. But take heart — you may be able to reach both goals if you make some smart choices now.

Know what your financial needs are. The first step is to determine your financial needs for each goal. Answering the following questions can help you get started:

For retirement:

- How many years until you retire?
- Does your company offer an employer-sponsored retirement plan or a pension plan? Do you participate? Can you estimate what your balance will be when you retire?
- How much do you expect to receive in Social Security benefits?
- What standard of living do you hope to have in retirement?
- Do you or your spouse expect to work part-time in retirement?

For college:

- How many years until your child starts college?
- Will your child attend a public or private college? What's the expected cost?
- Do you have more than one child whom you'll be saving for?
- Does your child have any special academic, athletic, or artistic skills that could lead to a scholarship?
- Do you expect your child to qualify for financial aid?

Many on-line calculators are available to help you predict your retirement income needs and your child's college funding needs.

Figure out what you can afford to put aside each month. After you know what your financial needs are, the next step is to determine what you can afford to put aside each month. To do so, you'll need to prepare a detailed family budget that lists all of your income and expenses. Keep in mind, though, that the amount you can afford may change from time to time as your circumstances change. Once you've come up with a dollar amount, you'll need to decide how to divvy up your funds.

Retirement takes priority. Though college is certainly an important goal, you should probably focus on your retirement if you have limited funds. If you wait until your child is in college to start saving, you'll miss out on years of potential tax-deferred growth and compounding of your money. Remember, your child can always attend college by taking out loans (or maybe even with scholarships), but there's no such thing as a retirement loan!

Save for your retirement and your child's college at the same time. Ideally, you'll want to try to pursue both goals at the same time. The more money you can squirrel away for college bills now, the less money you or your child will need to borrow later. Even if you can allocate only a small amount to your child's college fund, say $50 or $100 a month, you might be surprised at how much you can accumulate over many years.

If you're unsure about how to allocate your funds between retirement and college, a professional financial planner may be able to help. This person can also help you select appropriate investments for each goal. Remember, just because you're pursuing both goals at the same time doesn't necessarily mean that the same investments will be suitable. It may be appropriate to treat each goal independently.

Help! I can't meet both goals. If the numbers say that you can't afford to educate your child or retire with the lifestyle you expected, you'll probably have to make some sacrifices. Here are some suggestions:

- Defer retirement: The longer you work, the more money you'll earn and the later you'll need to dip into your retirement savings.
- Work part-time during retirement.
- Reduce your standard of living now or in retirement: You might be able to adjust your spending habits now in order to have money later.
- Increase your earnings now: You might consider increasing your hours at your current job, finding another job with better pay, taking a second job, or having a previously stay-at-home spouse return to the workforce.
- Invest more aggressively: If you have several years until retirement or college, you might be able to earn more money by investing more aggressively (but remember that aggressive investments mean a greater risk of loss). Note that no investment strategy can guarantee success.
- Expect your child to contribute more money to college: Despite your best efforts, your child may need to take out student loans or work part-time to earn money for college.
- Send your child to a less expensive school: You may have dreamed your child would follow in your footsteps and attend an Ivy League school. However, unless your child is awarded a scholarship, you may need to lower your expectations.

Can retirement accounts be used to save for college? Yes. Should they be? That depends on your family's circumstances. Most financial planners discourage paying for college with funds from a retirement account; they also discourage using retirement funds for a child's college education if doing so will leave you with no funds in your retirement years. However, you can certainly tap your retirement accounts to help pay the college bills if you need to.

Our team is always ready to help with any financial questions or concerns you may have. To get started, visit **CNBank.com/WM** to schedule an appointment with an advisor today.

Certificates of Deposits

What are they?
Certificates of deposit (CDs) are receipts for funds deposited at a financial institution. The CD entitles you to a set rate of interest plus the amount of your original deposit (your principal) at a specified time called the maturity date.

Essentially, you agree to leave a specified sum of money on deposit for a set period of time. Funds may be withdrawn before maturity; in such cases, however, a premature withdrawal penalty will apply. A typical penalty might be the loss of interest for a quarter.

Relative Safety
CDs are considered one of the safest of investments because they are generally short term and have minimal exposure to inflation. There may, however, be some reinvestment risk, and as with any investments there are tradeoffs.

Simplicity
CDs are simple to understand, set up, and use. They operate much like passbook savings accounts created for a specified term.

FDIC Insured
Like certain other institutional accounts, CDs are insured up to $250,000 per depositor per bank by the Federal Deposit Insurance Corporation (FDIC). The insurance applies to each ownership format per bank. For example, if you had an individual account, a joint account with a spouse, and a retirement account at the same bank, and each account had a balance of $250,000, then all three accounts would be fully insured by the FDIC for a total of $750,000.

Higher interest rates than some investments
Because CDs are term deposits (they tie up your money for a specified period), they tend to pay a higher rate of interest than savings accounts and money market deposit accounts.

Some liquidity
Because they represent short-term investments, CDs are fairly liquid. If you need to draw money out before the term is complete, you may do so, but you may incur a penalty for early withdrawal.

Premature withdrawal penalty applies
If you withdraw your money before the maturity date, you will be obligated to pay an early withdrawal penalty, such as the loss of interest for a quarter. Therefore, if an emergency arises and you need your cash sooner than expected, you could stand to lose a portion of your expected interest (but not your principal).

May be reinvestment risk
Interest rates change over time. If they fall substantially while your money is tied up in a CD, you will be unable to reinvest your CD funds at the previous rates, since comparable CDs will offer lower yields. If you want to earn a higher rate, you'll have to invest in another type of vehicle and probably bear additional risk.

> Tip: You can reduce your exposure to interest rate risk and reinvestment rate risk by investing in CDs with different maturity periods. By investing in CDs that mature at different times, you free up your money periodically to take advantage of changes in interest rates. This is known as laddering your CDs, and there are several laddering that can be used to implement the strategy.

Tax considerations*
Generally, interest earned on CDs is taxable on an annual basis and should be reported as interest income on Schedule B of your individual federal income tax return. Early withdrawal penalties charged on CDs are deductible on the federal level.

CNB offers many different CDs to meet your needs! As an optimum accountholder, you can take advantage of our special CD rates. Visit **CNBank.com/CD** to learn more and view current rates.

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Join us for our Annual Picnic!

Wednesday, August 16
11:30 am – 1:00 pm

Lincoln Hills Farms
3792 NY-247, Canandaigua, NY

Now accepting early registration online!
Register today at CNBank.com/Picnic

CNC Shareholder Corner

CNC stock is not traded on an exchange like other Wall Street stocks, but in auctions based on purchase and sale bids submitted in a sealed bid process.

Next Stock Sale: June 22, 2023

Visit our web page for the latest information on upcoming CNC stock sales!

CNBank.com/ShareholderRelations