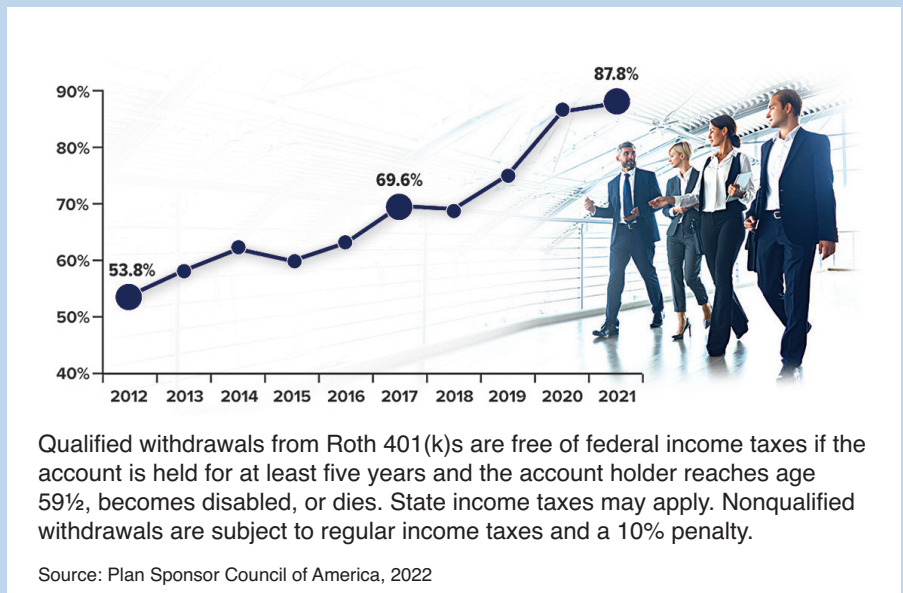


Employee Access to Roth 401(k) Plans on the Rise

Roth 401(k) plans can offer an ideal opportunity to build a source of tax-free retirement income. There are no income restrictions to participate, they have much higher contribution limits than Roth IRAs, and they may offer employer matching contributions. And thanks to the SECURE 2.0 Act of 2022, beginning in 2024, Roth 401(k)s will no longer impose required minimum distributions in retirement. The percentage of employers offering a Roth 401(k) plan grew substantially from 2012 to 2021, a trend that may continue.



All Eyes on the Earnings Picture

Publicly traded companies are required to disclose their financial performance to regulators and shareholders on a quarterly basis. News organizations and investors pay close attention to these reports because they tend to impact stock prices, with strong earnings driving share prices up, and vice versa.

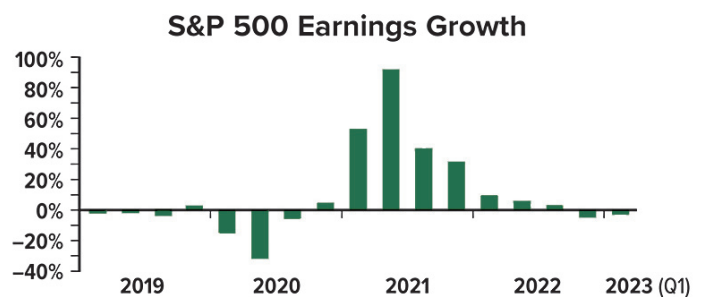
In the first quarter of 2023, the earnings of companies in the S&P 500 Index declined 2.2%. This was a much stronger showing than Wall Street analysts expected after profits fell 4.6% in the previous quarter. On a positive note, revenues grew 2.9% in Q1 as consumer spending faced down inflation.¹⁻²

Earnings season can be a volatile six-week period for stocks. As investors digest and respond to new data, the marketplace rewards some companies and punishes others.

Continued on next page

Hindsight Offers Perspective

Stock prices tend to be forward looking, which is one reason they don't always move in the same direction as earnings. For example, the S&P 500 Price Index returned nearly 29% in 2019 and more than 16% in 2020, even though earnings growth was negative in six of those eight quarters.



Sources: FactSet, 2023; S&P Dow Jones Indices, 2023

All Eyes on the Earnings Picture, *continued from front page*

Measuring Performance

A quarterly report typically includes unaudited financial statements, a discussion of the business conditions that affected financial results, and some guidance about how the company expects to perform in the following quarters. Financial statements reveal the quarter's profit, or net income, which must be calculated according to generally accepted accounting principles (GAAP). This typically involves subtracting operating expenses (including depreciation, taxes, and other expenses) from gross income.

Pro-forma (or adjusted) earnings may present an alternative view of financial performance by excluding nonrecurring expenses such as restructuring costs, interest payments, taxes, and other unique events. Although the Securities and Exchange Commission has rules governing pro-forma financial statements, companies still have a great deal of leeway to highlight the positive and minimize the negative in these reports. There may be a vast difference between pro-forma and GAAP earnings.

Earnings per share (EPS) represents the portion of total profit that applies to each outstanding share of company stock. EPS is often the figure that makes headlines, and the financial media tends to focus on whether companies meet, beat, or fall short of the consensus estimate of Wall Street analysts. A company can see its stock price surge by losing less money than expected or can log billions in profits and still disappoint investors who were counting on more.

Shaping Perception

Due to the potential effect on stock prices, companies often take steps to avoid big surprises, mostly by managing the market's expectations. This may involve issuing profit warnings or positive revisions to previous forecasts, which may cause analysts to adjust their estimates accordingly.

Companies may also be able to time certain business moves to help meet quarterly earnings targets.

In addition to filing regulatory paperwork, many companies announce their results through press releases, conference calls, and/or webinars so they can try to influence how the information is judged by analysts, the financial media, and investors.

Diving Deeper

Investors who look beyond the headline performance metrics may find other meaningful details in a company's quarterly report. Expansion plans, research and development, new products, consumer trends, government policies, and shifts in domestic or global economic conditions can all affect a company's financial results, either immediately or in the future.

Bear in mind that reported earnings generally reflect the company's recent performance, which in some cases may have little to do with its longer-term prospects. Moreover, some companies and/or industry sectors are likely in a better position to withstand economic challenges than others.

The return and principal value of stocks fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. The S&P 500 Index is an unmanaged group of securities considered to be representative of the U.S. stock market in general. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Past performance is no guarantee of future results. Actual results will vary.

1) FactSet, 2023

2) The Wall Street Journal, April 30, 2023



Four Key Objectives of a Sound Retirement Plan

A sound retirement plan should be based on your particular circumstances. No one strategy is suitable for everyone. Once you're retired, your income plan should strive to address four basic objectives: earn a reasonable rate of return, manage the risk of loss, maintain a source of sustainable and predictable income, and reduce the impact of taxes.

Earn a Reasonable Rate of Return

Your retirement savings portfolio will likely be used to provide at least a portion of your income throughout retirement. The overall goal is to maintain an amount that produces the necessary income each year. This requires accounting for the rising costs of goods and services (including health-care expenses); identifying your budgetary needs and wants; estimating how long you'll expect retirement to last; and factoring in Social Security and other income sources. It also requires estimating a rate of return you'll need to earn on your portfolio and then putting together an investment strategy to pursue that target rate.

If you have enough savings to meet your retirement needs, you'll want to maintain that level of savings throughout your retirement years. That's why it's important to strive for a realistic rate of return on those savings. Of course, determining a reasonable rate of return depends on your individual circumstances and goals.

Manage Risk of Loss

If you have sufficient savings to meet your retirement needs and goals, you'll want to protect those savings and reduce the risk of loss due to sudden market corrections and volatility. The goal is to reduce investment risk and preserve savings. A reduction in savings due to a market

downturn could require you to sacrifice important retirement goals and reduce retirement income.

Prior to retirement, you have more time to recover from market losses. However, once retired, your time frame for recovery is much shorter. For example, if you had retirement savings of \$500,000 and lost 25% due to market volatility, your savings would be reduced to \$375,000. You would have to earn a rate of return of more than 33% in order to get back to \$500,000. That could take plenty of time to achieve.

Maintain a Sustainable and Predictable Income

During our working years, most of us are used to receiving a steady income. However, once we retire, the income we got from work is no longer there, even though that's what we've been accustomed to. So it's important to create a sustainable, dependable, income stream in retirement to replace the income we received during our working years. While you may receive Social Security retirement benefits, it's unlikely that you can maintain your desired lifestyle in retirement on just Social Security. In addition, defined-benefit pension plans are not as prevalent or available as they once may have been. Most employers don't offer pension plans, placing the burden on us to find our own sources of retirement income.

Maintaining a sustainable income in retirement is important for many reasons. You'll want sufficient income to meet your retirement expenses. It is also important that your income is not negatively impacted by downturns in the market. And you'll want your income to last as long as you do.

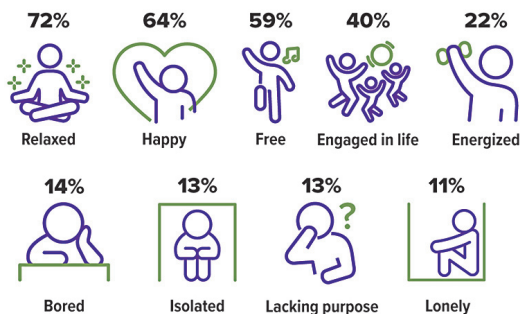
Reduce the Impact of Taxes on Retirement Income

Taxes can cut into your retirement income if you don't plan properly. Many of us think our tax rate will be lower in retirement compared to our working years, but that is often not the case. For instance, we may no longer have all of the tax deductions in retirement that we had while working. In addition, taxes may increase in the future, potentially taking a bigger chunk out of your retirement income. So it's important to create a tax-efficient retirement.

Your retirement plan should be suited to your particular situation. However, these four objectives are often part of a sound retirement plan. A financial professional may be able to help you to earn a reasonable rate of return, manage risk of loss, create and maintain predictable retirement income, and reduce the impact of taxes on that income. There is no guarantee that working with a financial professional will improve investment results.

A Few Words About Retirement

In a recent survey, retirees ages 40 to 74 were asked to choose from a list of words and short phrases to describe their feelings about retirement. The good news is that most had positive feelings.



Source: AARP, 2022 (multiple responses allowed)

You've Received an Inheritance, Now what?

If you've recently received an inheritance, you may be facing many important decisions. Receiving an inheritance might promote spending without planning, but don't make any hasty decisions. Here are some suggestions that could help you manage your inheritance.

Identify a Team of Trusted Professionals

Tax laws can be complicated, so you might want to consult with professionals who are familiar with assets that transfer at death. These professionals may include an attorney, an accountant, and a financial and/or insurance professional.

Consider Tax Consequences

While you might not owe income taxes on the assets you inherit, your income tax liability may eventually increase, particularly if the assets you inherit generate taxable income. For instance, distributions you receive from inherited tax-qualified plans such as 401(k)s or IRAs will likely increase your taxable income.

Also, your inheritance may increase the size of your estate to the point where it could be subject to state and/or federal transfer (estate) taxes at your death. You might need to consider ways to help reduce these potential taxes.

How You Receive Your Inheritance Makes a Difference

Your inheritance may be received through a trust, in which

case you'll receive distributions according to the terms of the trust. You might not have total control over your inheritance as you would if you inherited the assets outright. If you inherit assets through a trust, it's important that you familiarize yourself with the trust document and the terms under which you are to receive trust distributions.

Develop a Financial Plan

Consider your future needs and how long you want your wealth to last. It's a good idea to take some time after inheriting money to formulate a financial plan. You'll want to consider your current lifestyle and your future needs, then formulate a financial strategy to meet short- and long-term goals.

Evaluate Your Estate Plan

Depending on the value of your inheritance, it may be appropriate to re-evaluate your estate plan. Estate planning involves conserving your money and putting it to work so that it best fulfills your goals. It also means helping reduce your exposure to potential taxes and possibly creating a comfortable financial future for your family and other intended beneficiaries.

For guidance on inheritance or estate planning, contact a Trust professional at CBI Bank & Trust.

Contact a Trust Department Staff Member at CBI Bank & Trust

As trusts can be complex and influenced by a number of factors, we like to start with a personal appointment where we get to know you and your needs. Contact any of the CBI Bank Trust Department staff members to arrange an appointment today.



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