"From Where I Sit …"

"The Basics of Retirement Investing"

Providing for the retirement of CME ministers and the families of deceased CME ministers is the primary purpose of the General Board of Personnel Services. Dating back to 1918 when the department was first established 95 years ago, providing retirement benefits was accomplished through the program I referred to in the May 2013 issue as S.P.W.&O. (Superannuated Preachers, Widows and Orphans). Today's version of that program is now known as the CME Retirement Plan and Trust and continues to be administered by this department.

Although, it is an easy assumption that most people in 2013 have a rudimentary understanding of investments and investment techniques, that assumption could also be in error. In an effort to not take anything for granted this article is intended to address some of the basics of investments.

To begin the process, one must take their own money or have their employer to withhold or provide money to be invested in some type or form of corporate or governmental debt or obligation that will either earn income or generate interest (which is a form of income). Investments in their simplest form are either classified as equities or fixed (as in fixed income). Corporate stocks such as Exxon Mobil, Georgia Gulf, General Electric, Hertz, Macy's, and CVS are some of the thousands of likely examples of equities. Equities are shares of stocks in companies that range from "Mom and Pop" ventures that have grown in size to major national and international corporations whose financial prospects we often hear evaluated on daily news programs or financial network stations such as CNBC, MSNBC, CNN and others. There are many different classifications of equities and many more companies or corporations within each classification. When a company or corporation makes a profit, the profit is shared with the shareholders in the form of dividends. If a shareholder needs additional funds or loses confidence in the company's ability to make a profit and share future dividends, then the shareholder will sell his shares but only if there is someone willing to purchase the offered shares. Hence the risk of investing in equities is the possibility of an overall loss of confidence in a company to the degree that the company's stocks or shares are devalued and the investor or owner of the shares suffers a loss in value.

The alternative to equities or corporate shares is fixed income which is the purchase of the debt of a corporation or governmental entity (often referred to as a bond) with the expectation that 1) the company or entity that issued the debt or bond will pay interest to the investor at determined intervals based on a prescribed interest rate and 2) at the end of the bond's debt period or its maturity the issuing company or entity will purchase back the debt or, in other words, repay your loan which was your original investment. Fixed income investments are usually safer than equities due to the promise of the repayment of the initial investment (or loan) but this is never a guarantee. Some fixed income investments are rated higher than others because of their earning potential and credit ratings. One of the most highly regarded fixed income investment options would be US Treasury Bonds which are back with the full faith and credit of the US Government. It was the value of these Treasury Bonds that contributed significantly to the celebrated debate last year between President Obama and the US House leadership concerning the issues regarding raising the national "debt ceiling." Like equities, there are also risks with fixed income investments or bonds such as 1) if one needs to sell a bond before its maturity, its current value will likely be different from its value at full maturity and 2) should the issuing company experience significant financial difficulties or go bankrupt it may also default on its repayment of its debt or bond leaving the investor with a worthless bond.

Since both equities and fixed income investment options come with their own set of risks, it is important for the investor to choose how much risk he is willing to take in an effort to gain a return. Prudent investors never put all of their investment eggs in only one investment option basket but rather divide their risk between equities and fixed income. Such a division is called an allocation and there are as many allocation options as there are investors wishing to gain a return. The general allocation is 60% equities and 40% fixed and is often perceived as the safest option for long term retirement investing.

There is much more to be said about retirement investing and the aforementioned statements just begin to scratch the surface. Yet many people are unaware of these very basic building blocks. In future issues I will share more about other investment options and how they relate to the CME Retirement Plan.

In the meantime, as the CME Retirement Plan continues to grow with new participants enrolling every day, it is important that every participant, clergy or lay, understand the basic principles involved in investing so that each participant will appreciate the effort used to wisely invest their contributions for future growth. The primary goal of the CME Retirement Plan is to invest for the long term and thereby maximize the return on investment for each participant. When this goal is shared by the majority of our participants, decision making for the long term will be a much easier task. Or at least that is the way it looks to me …

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(Copies of earlier articles may be found on the Personnel Services Webpage of the CME Website at www.c-m-e.org)