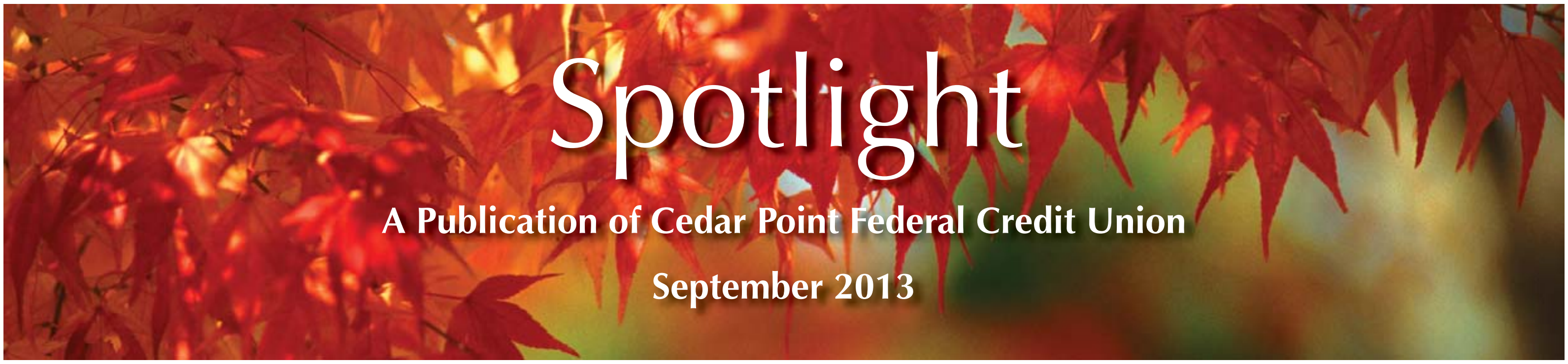


## *Credit Unions Earned Tax Status Through History of Service*

Like superheroes, credit unions--volunteer-run, member-owned cooperatives--appear and serve in times of need.

Started in Germany 160 years ago while Europe was reeling from the Great Famine, credit unions spread to the United States during the early 1900s and earned their tax-exempt status from Congress during the Great Depression.

More recently, credit unions were among the few financial institutions standing strong after the subprime mortgage crisis rocked Wall Street in 2008. In recent years hundreds of thousands of Americans have transferred their checking accounts to credit unions as consumers shunned the reckless and costly banking practices that precipitated the Great Recession.

That the rise of credit unions happened in tandem with historic events that proved ruinous for the economically disadvantaged is no coincidence—credit unions were designed to help people in need.

But even as credit unions have proven more essential than ever, Congress is considering revoking their tax-exempt status as part of its overhaul of the tax code.

During an era of outrageous financial rewards for banking executives, the credit union philosophy of returning profits to their members through higher rates of return on checking and savings accounts, lower interest rates on loans, and fewer fees should be celebrated.

Instead, by eliminating the tax exemption, Congress would fail to distinguish between credit unions and banks, even though the history of credit unions demonstrate they exist to serve consumers that for-profit financial institutions either can't or won't.

Take for instance Wilhelm Friedrich Raiffeisen. In 1864, Raiffeisen, the mayor of a rural German community, opened one of the earliest and most influential credit unions, allowing farmers with no access to credit to pool their money and make loans to each other at low interest rates.

Member-owned, volunteer-run, and not-for-profit, Raiffeisen's Heddesdorf Credit Union remains the model for all credit unions today.

In 1934, as the Great Depression tightened its grip on Americans, President Franklin D. Roosevelt signed the Federal Credit Union Act establishing a national credit union system "to make available to people of small means credit for provident purposes, through a national system of co-operative credit."

In 1935, a treasurer at a Midwestern credit union summarized the movement's mission: "Not for profit, not for charity, but for service."

Banks will say the tax code gives credit unions an unfair advantage, even though in just the past two years bank assets grew by $1.3 trillion—more than credit unions have grown since they began operating in the U.S. more than 100 years ago.

By focusing on service instead of explosive growth, credit unions have remained steadfast, prudent managers of their members' deposits through good economic times and bad. But the loss of their tax-exemption would weaken many of the benefits that make them a vibrant financial alternative.

If that happens, the next time a crisis threatens and credit unions are needed, there may not be as many around to answer the call.

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## Tap Your 401(k) Early? You're Gambling Your Retirement

More Americans are raiding retirement savings to cover routine expenses such as mortgages and credit card bills. If you can help it--don't do it.

HelloWallet, a budgeting-technology website, estimated that 25% of Americans make withdrawals from their 401(k)s before they reach retirement age, to the tune of about $70 billion a year. Vanguard, an investment-management company, recently released numbers showing that, since 2008, 401(k) loans are up by 12%.

These reports are troubling omens for millions of future retirees.

While that retirement nest egg is a tempting source for quick cash, especially when budgets are tight, cracking it for monthly bills puts you at risk for additional taxes, penalties, and, most dire of all, not having enough to live on when you're older.

If you're younger than age 59½ and you default on a 401(k) loan or take a cash-out distribution, you must pay not only income tax but a 10% penalty on the amount withdrawn. If you're in the 25% federal tax bracket that means 35% of your withdrawal disappears—money that otherwise would be earning for you. Remember, you will owe state tax as well, further decreasing your withdrawal.

But is it ever OK to withdraw money early from your retirement savings?

The short answer from most financial planners would be an emphatic, "No." However, the Wall Street Journal reports that, in a limited number of instances, siphoning money from your 401(k) might be acceptable.

These exceptions include:

- If you make a short-term loan from your 401(k)—thus avoiding penalties—and it's for an important investment such as a house or to pay off high-interest debt. Considering that the interest you pay on the loan goes to you, a 401(k) loan could be preferable to high-interest alternatives. But given the opportunity cost from lost future earnings on the amount you withdraw, consider a Cedar Point Federal Credit Union loan instead.
- If your circumstances are grim enough that you qualify for a "hardship withdrawal," often taken to avoid foreclosure, bankruptcy, or to pay for medical expenses. Keep in mind that 401(k) funds are protected from seizure in bankruptcy proceedings. 401(k) plans do not have to offer hardship withdrawals. Talk to your plan's adminstrator for details about your plan.

Most of the time, depleting your 401(k) is akin to robbing yourself. Even if you take a short-term loan, if you stop contributing to pay it back, this puts you behind on retirement savings goals. You lose compounding interest for the sum you borrowed as well as the amount you stopped contributing in order to repay it. In some instances, your employer match may be temporarily lost as well.

Instead, talk to a Cedar Point Investment Services professional about all your options. We can help you keep that nest egg incubating.