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# Contributions and Income: Economic Cycles and Their Impacts

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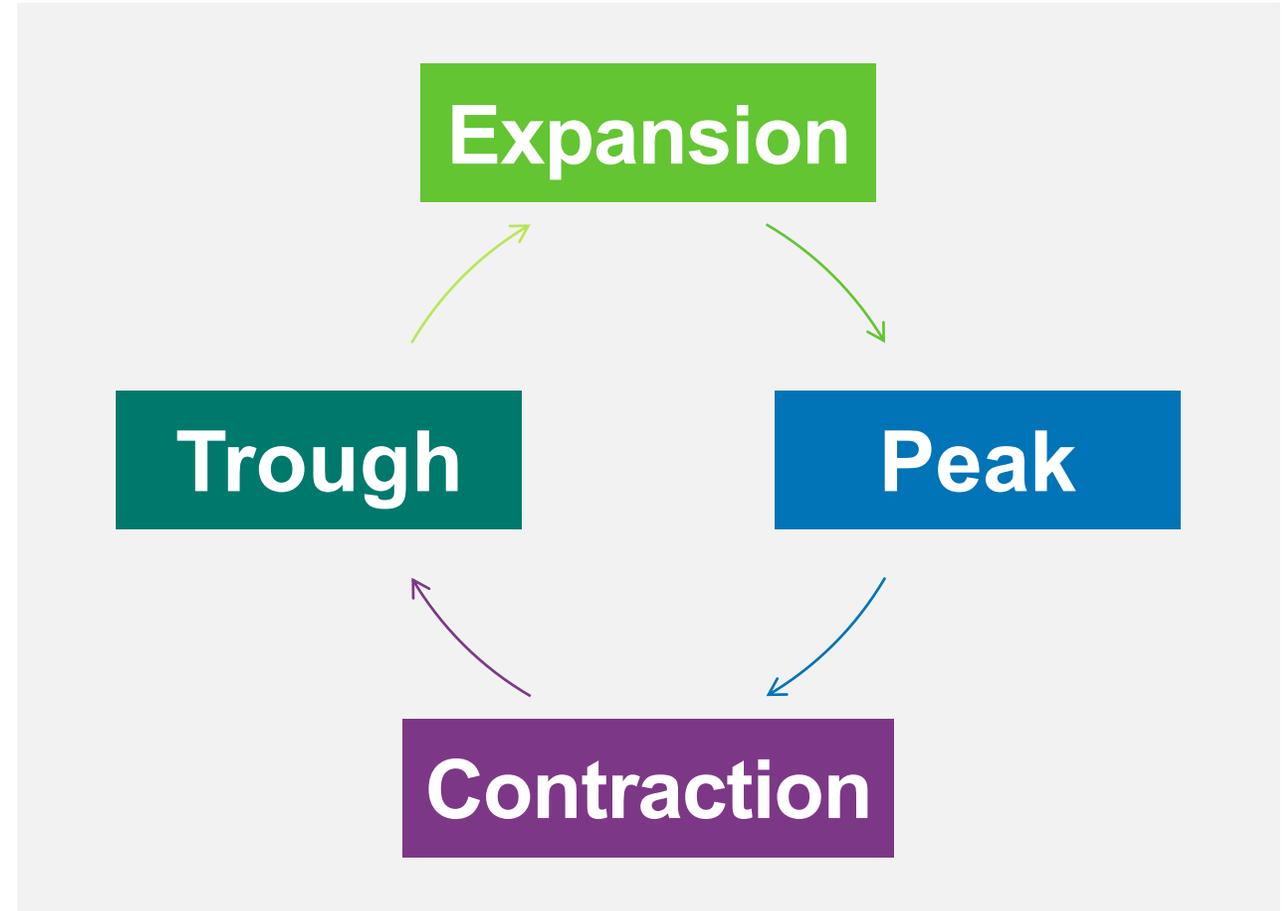
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# Session details

- 1 Define the business/economic cycle
- 2 Why understanding the economic cycle matters
- 3 Discuss the four stages of the economic cycle
- 4 Define key terms to describe economic cycles
- 5 Identify historical economic cycles
- 6 Define monetary and fiscal policy
- 7 Illustrate impact of cycle on retirement plans
- 8 Key factors for managing plans through the cycle

# Business or economic cycle

- Natural rise and fall of economic growth that occurs over time
- Cycle is driven by changes in consumer confidence, business investment, and external factors



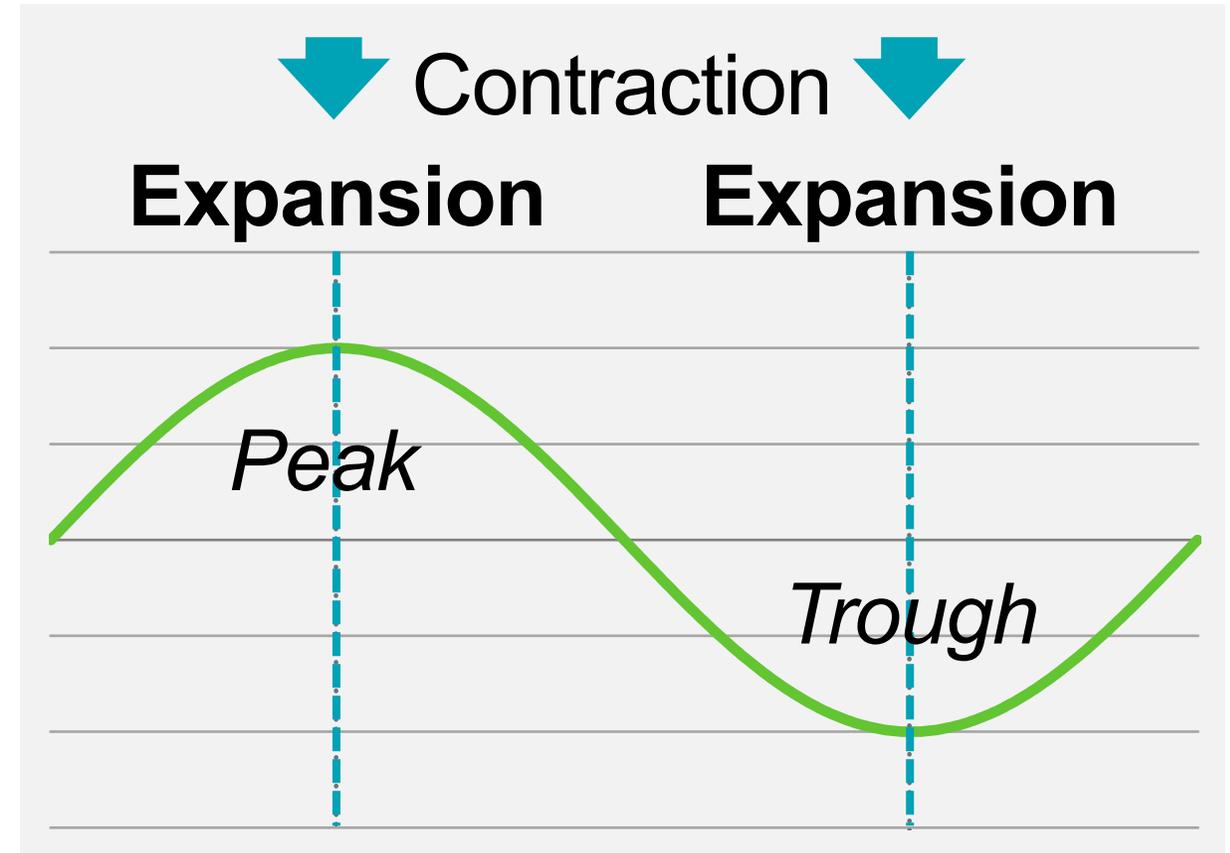
# Why does the economic cycle matter?

- By understanding the economic cycle, one can make more informed financial decisions
- Retirement plans can be impacted by changes in the cycle, making it important to plan for ups and downs
- Recognizing where we are in the economic cycle helps manage risks and potentially seize opportunities

# Four Stages of the Business Cycle: Expansion

## Expansion

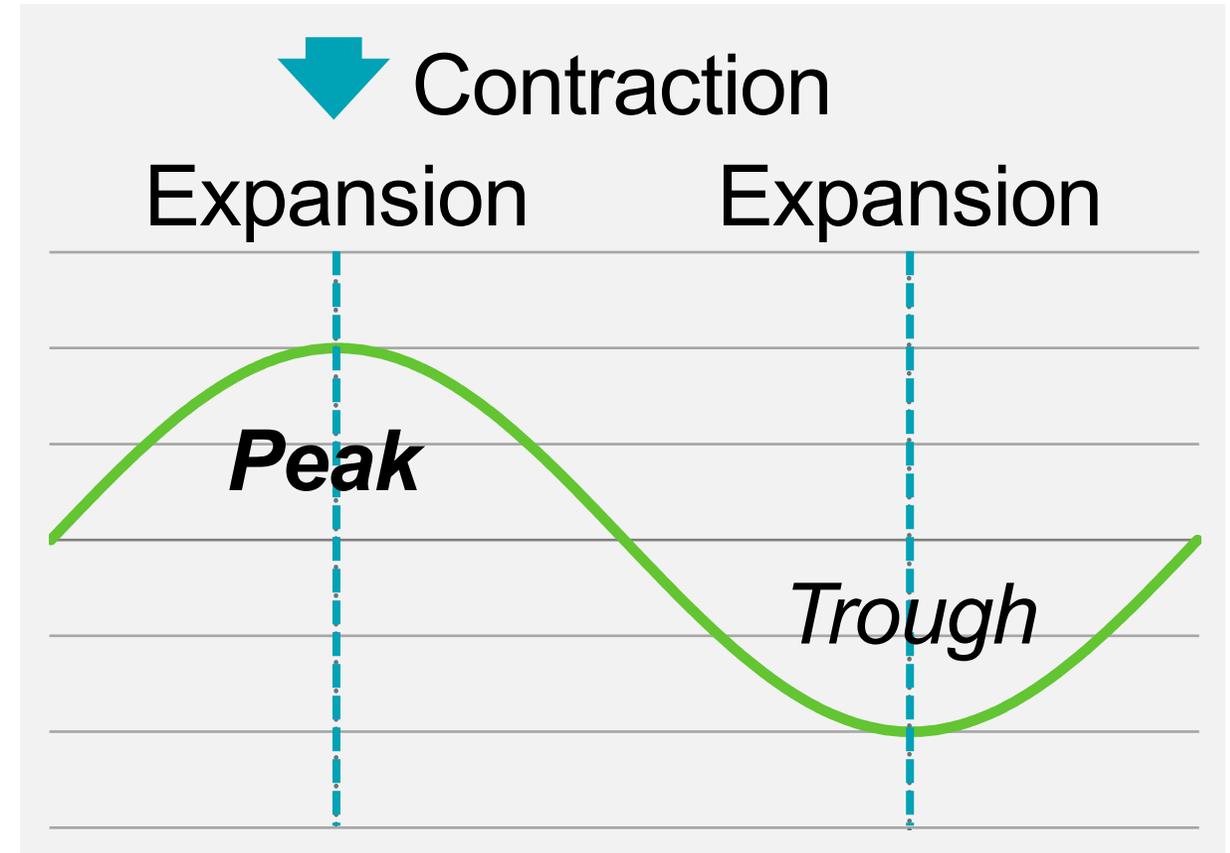
- High economic growth
- Low unemployment
- Rising income
- Increased spending



# Four Stages of the Business Cycle: Peak

## Peak

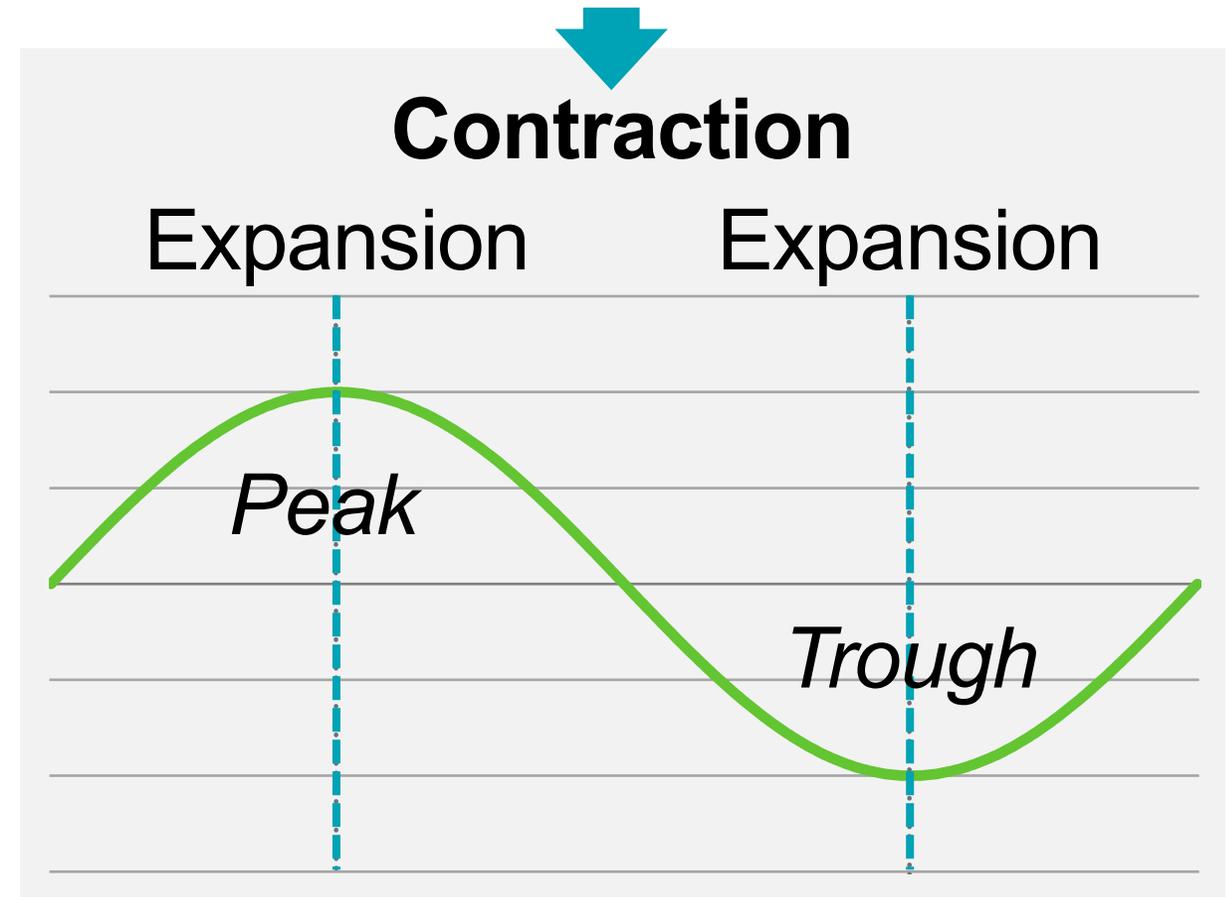
- Highest point in the economic cycle when growth reaches its highest level before starting to slow down or decline



# Four Stages of the Business Cycle: Contraction

## Contraction

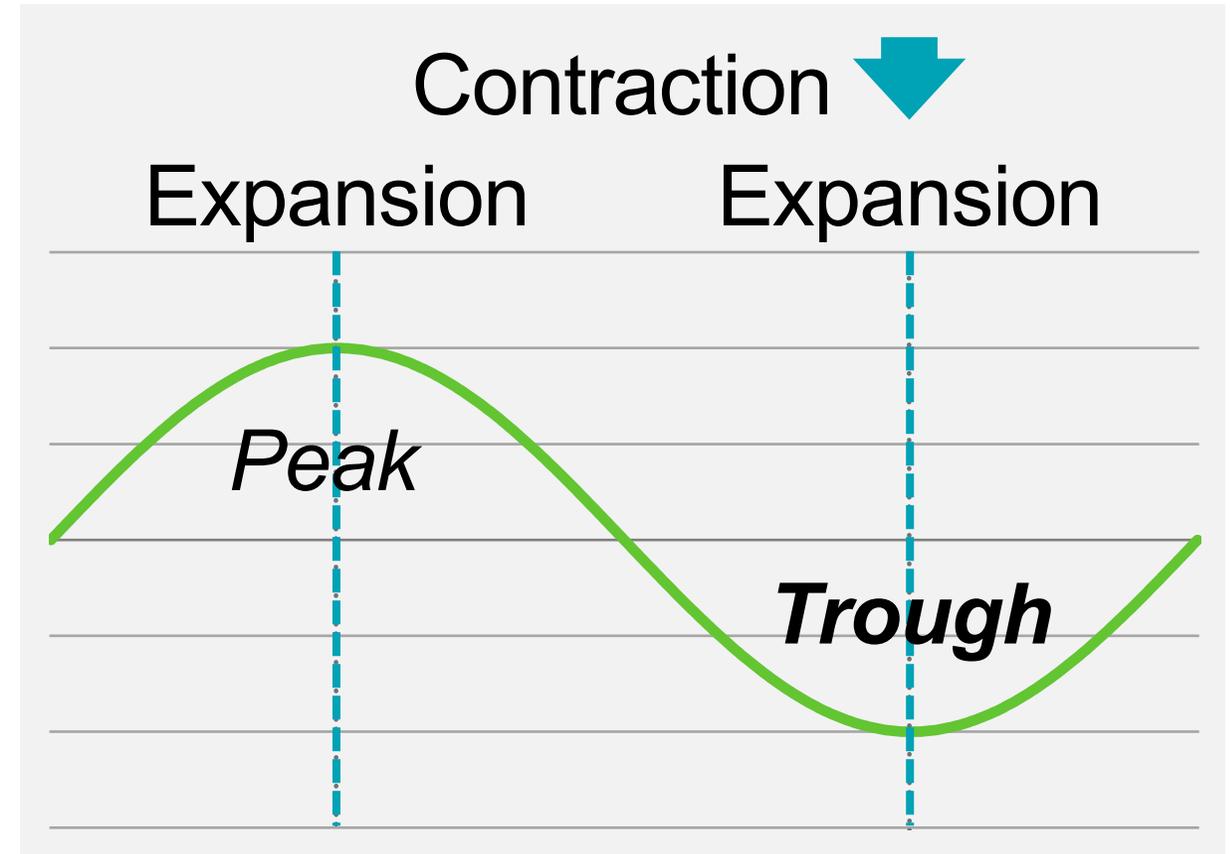
- Economic growth slows
- Unemployment rises
- Spending and investment drop
- Economic growth turns negative



# Four Stages of the Business Cycle: Trough

## Trough

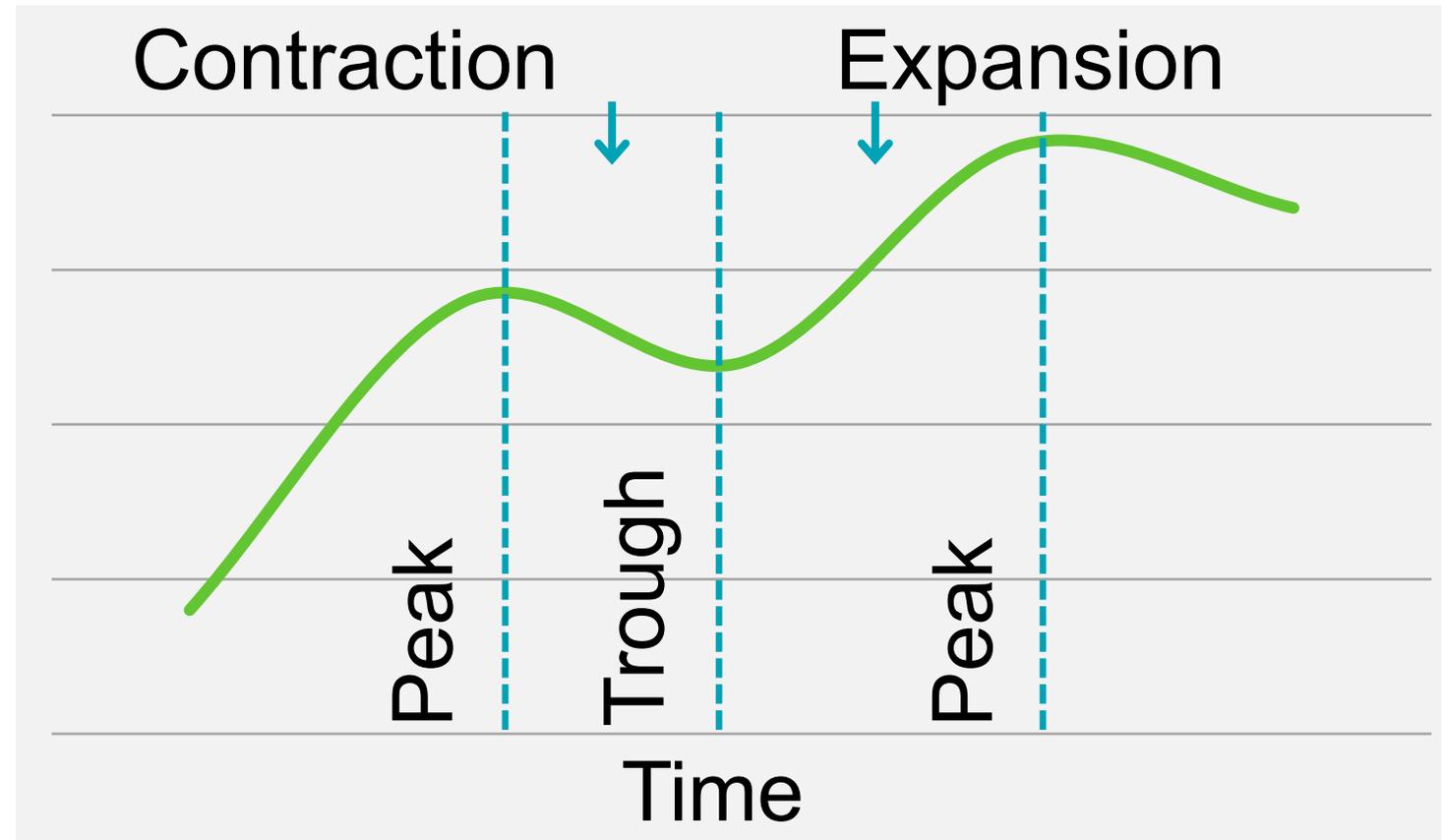
- The lowest point in the cycle, economic decline bottoms out, unemployment is high
- The economy has reached the end of a recession and is about to expand again



# Key Term: Real Gross Domestic Product (GDP)

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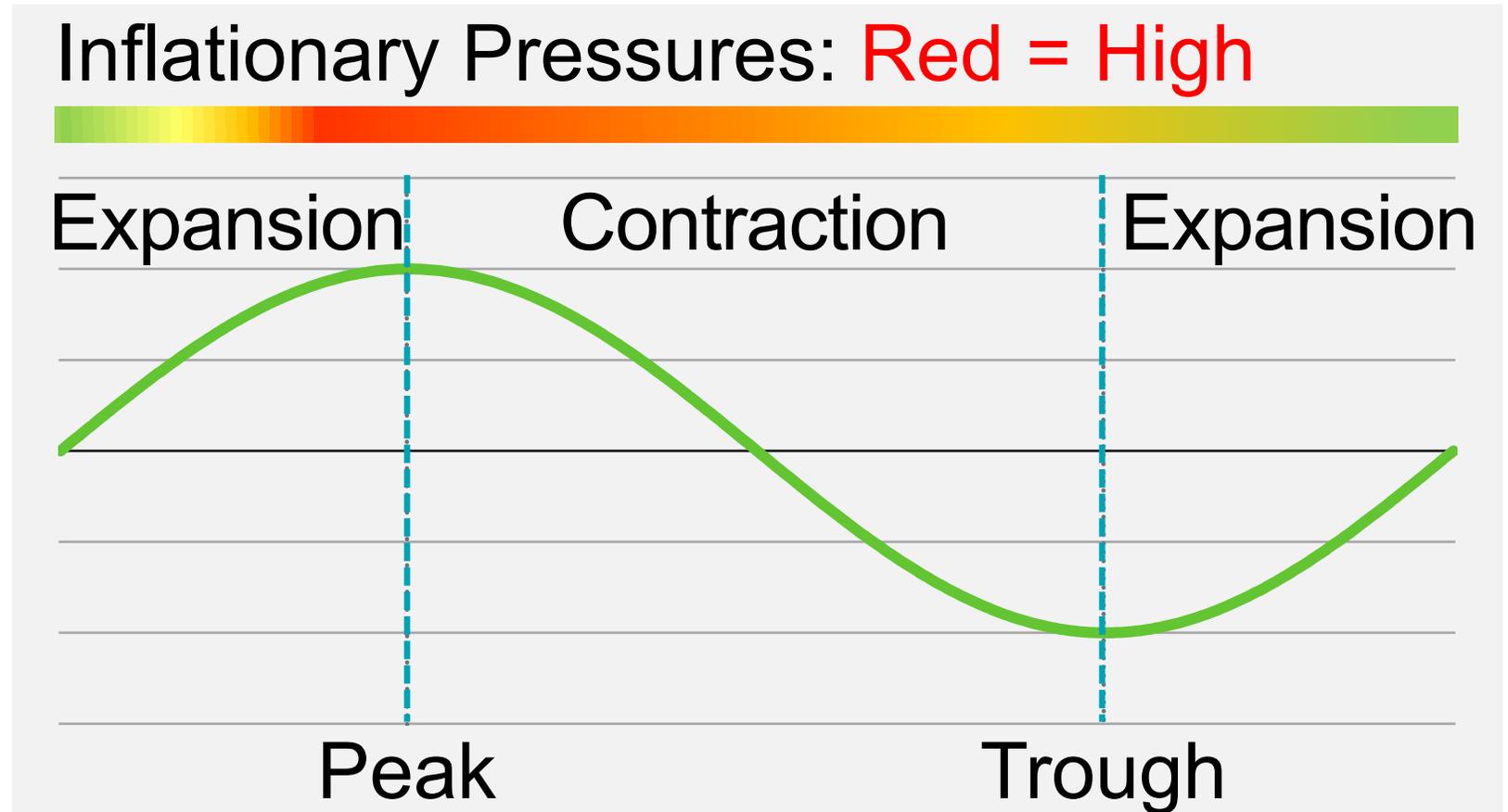
– Economic output of a country excluding inflation



# Key Term: Inflation

## Inflation

- General increase in the prices of goods and services over time



# Key Term: Recession

## Contraction vs. Recession

- **Contraction:** Any period of declining economic activity, marked by falling GDP and rising unemployment
- **Recession:** More severe than contraction noted by a significant and sustained decline in general economic activity

# Historical Economic Cycles



# Tools that Impact Business Cycles

- **Monetary Policy:** Used by central banks (Fed Reserve) to manage the money supply and interest rates – objectives include inflation, consumption, and growth
- **Fiscal Policy:** Elected officials implement to change the cycle – Contraction or Trough-including changes in government spending and taxes

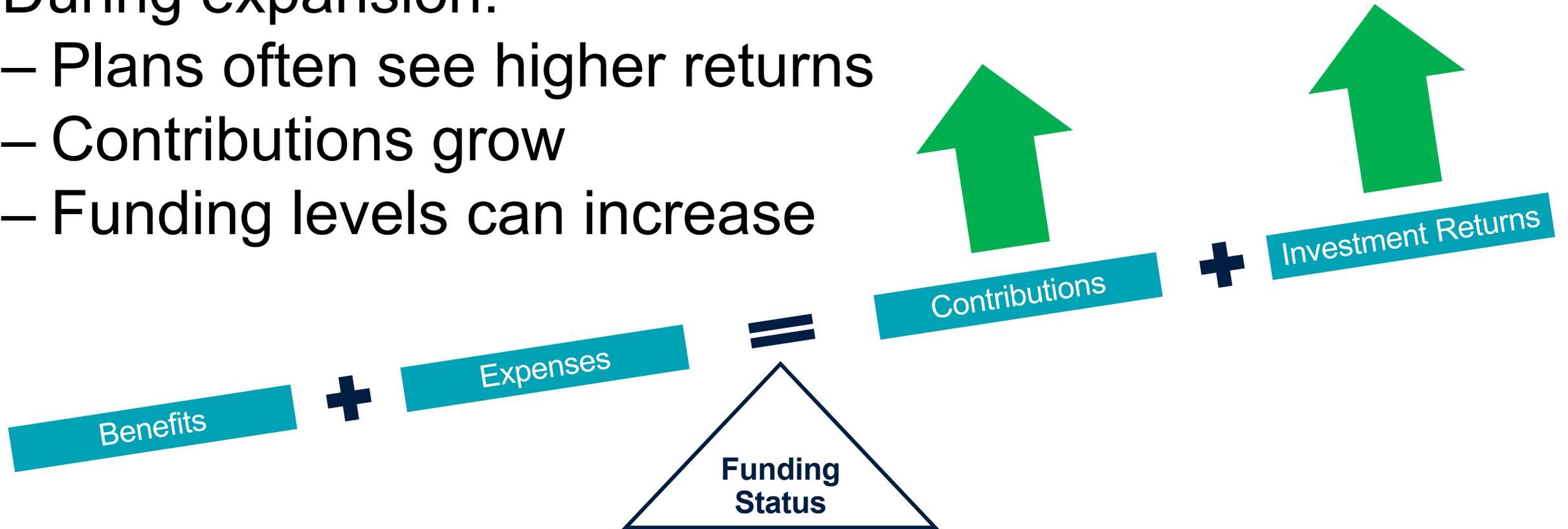
# Impact of Business Cycles on Retirement plans

- **Investment Returns:** During downturns, investments held by pension plans may lose value, reducing the money available for future payments
- **Employer Contributions:** In weaker economic periods, employers may struggle to contribute as much to pension funds

# Retirement plans during expansion

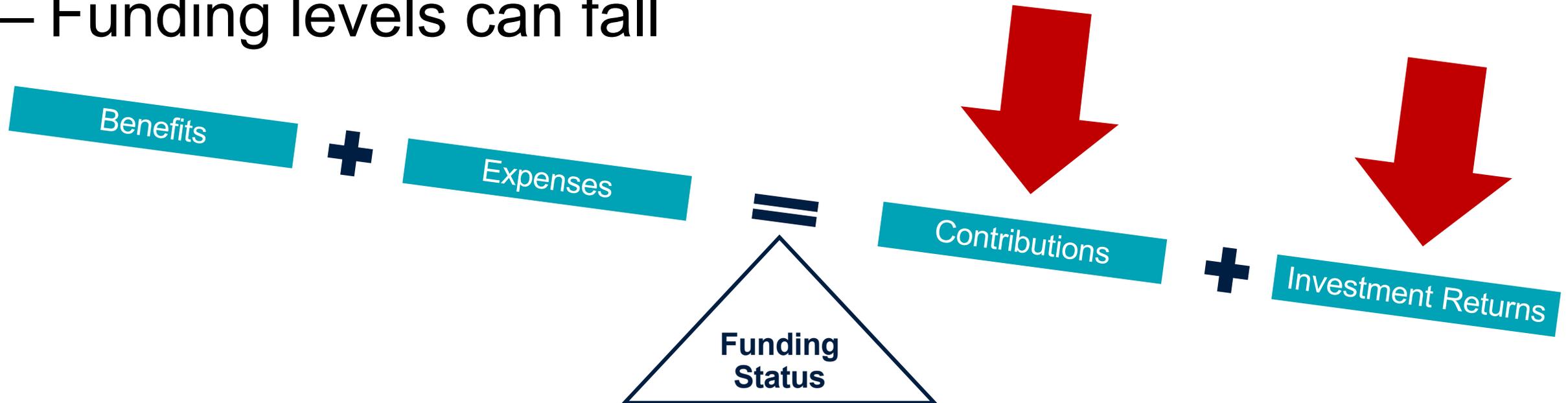
During expansion:

- Plans often see higher returns
- Contributions grow
- Funding levels can increase



# Retirement plans during contraction

- Investments may lose value
- Contributions may decrease
- Funding levels can fall



# Considerations for Retirement Plans

- **Diversification:** Long-term investing not market timers
- **Eliminate Emotional Investing:** Rebalance to target portfolio or within Investment Policy range
- **Fiduciary duties:** Acting solely in the interest of the investment plan participants and beneficiaries

# Key Takeaways

- **Understanding the Cycle:** Recognizing where we are in the economic cycle (expansion, peak, contraction, trough) helps to anticipate impacts on plan funding, contributions, and investment returns
- **Plan Responsibly to seize opportunities and avoid risks:** Economic downturns can reduce asset values and employer contributions while economic upturns can create opportunities for investing

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