Financial and Retirement Planning

Hills Bank
TRUST AND WEALTH MANAGEMENT

Serving thousands of customers ... one at a time.™

experience

performance 1904

success

Hills Bank's success since 1904
can be credited to strong customer and community
relationships built from quality service and performance.
Continuing this legacy, the bank strives
to perform to the high standards set by its founders,
serving thousands of customers … one at a time.

legacy

service

communities

trust

care

Hills Bank and Trust Company
131 Main Street
Hills, Iowa 52235

Dear Friends,

It is with great enthusiasm that we introduce you to Hills Bank! Built from humble beginnings, we have pursued growth and new technologies to better meet the needs of our loyal customers.

Hills Bank was founded in the small town of Hills, Iowa by a group of dedicated citizens. Today the bank encompasses 19 offices in three eastern Iowa counties, with 475 employees. Total bank assets exceed $2 billion, and Trust and Wealth Management Group assets top $1 billion. While still headquartered in a town of fewer than 700 people, Hills Bank is one of the largest independent banks in Iowa with over 120,000 customers.

We have been serving individuals, businesses, and not-for-profit organizations in eastern Iowa since 1904, delivering quality personal service and trusted professional investment expertise. To help you through the important and ongoing task of financial and retirement planning, we share this book as a guide to determine your goals and realize them.

We look forward to getting acquainted and appreciate the opportunity to serve you and share the Hills Bank Way!

Sincerely,

Dwight O. Seegmiller
President and CEO

Serving thousands of customers ... one at a time.™
Member FDIC

Financial planning–getting started

Do you have a plan? Life can be hectic. As a result, many people put off planning for their future. More specifically, they get caught up in the here and now and don't take the time to stop and think about planning for their retirement. If you have not yet retired, ***have you thought about your upcoming retirement recently?*** Do you have a plan? If not, it's never too late to get started.

realistically envision the lifestyle you want when you retire

Envision your future. The key to successful retirement planning is to implement a plan and review it often. What should your plan look like? How do you formulate a plan? First, ***realistically envision the lifestyle you want when you retire.*** Are you planning to travel, relocate geographically, downsize your home, or continue to work on a part-time basis?

Evaluate your present situation. Next, it is important to review your present financial situation to ***determine the steps to get you where you want to be.*** Among other things, this involves calculating your current net worth (assets minus liabilities), organizing your expenses to determine spending patterns, and examining your existing retirement and other investments.

Getting sta

Determine your financial needs. The next step involves identifying your financial and retirement needs. This will help you to navigate what can sometimes feel like the maze of retirement planning. Based on your vision of retirement, consider working with a professional such as the Hills Bank Trust and Wealth Management Group to determine ***how much money you will need to set aside*** and ***which investment and savings tools would work best for you.***

a partner for your financial success

Factors that should be considered among others include:

(1) the income needed in retirement,
(2) the age you plan to retire,
(3) the estimated rate of return on your investments,
(4) inflation, and
(5) taxes.

create a personalized plan with which you are comfortable

The goal is to create a personalized plan you feel comfortable with that will help you maintain a lifestyle consistent with your retirement plan.

Social Security and the income gap

When the Social Security retirement income system was created in the 1930s, it was designed to provide a partial retirement income supplement. Today, the average Social Security retirement benefit is approximately $1,250 per month, or $15,000 per year. The amount of annual living expenses not covered by Social Security or income sources such as a pension or rental income is often referred to as ***your "income gap."***

Full, or unreduced, Social Security benefits are based upon your birth year:

Year of Birth	Full (normal) Retirement Age
1937 or earlier	age 65
1938	age 65 and 2 months
1939	age 65 and 4 months
1940	age 65 and 6 months
1941	age 65 and 8 months
1942	age 65 and 10 months
1943-1954	age 66
1955	age 66 and 2 months
1956	age 66 and 4 months
1957	age 66 and 6 months
1958	age 66 and 8 months
1959	age 66 and 10 months
1960 and later	age 67

Source: www.ssa.gov

For more information about Social Security or to obtain a benefit estimate and earnings statement go to www.ssa.gov.

If you start your retirement benefits at age 62, your monthly benefit amount may be reduced by as much as 30%. Thanks to what the Social Security Administration calls "delayed retirement credits," ***benefits increase 8% each year you delay receiving Social Security—up to age 70.*** So waiting until you reach age 70 means as much as a third more income for life.

Your personal situation can help you decide when to take benefits. Consider the following:

- ***Your health.*** If your health is poor, you may want to take benefits early.
- ***Are you still working?*** Your benefits will be temporarily reduced once your income exceeds a certain amount if you begin receiving benefits prior to your normal retirement age.
- ***Is your family long-lived?*** You may need the extra income later on, so waiting may be the best choice.
- ***The "break-even" point.*** If you are considering taking benefits earlier or later than your normal retirement age, you can figure your "break-even" point—the age after which your total lifetime benefits would be either less or more than they would have been if you had taken them at normal retirement age.

How much can I spend?

Once the "income gap" has been determined, the next step is to determine if your accumulated or projected assets are adequate to fill this gap. The goal is to determine the amount of annual living expenses that must be covered by your investable assets such as IRAs, savings and personal investments.

When this goal amount is divided by the size of your investable asset portfolio, the result is the ***rate of return you need to achieve.*** For example, if a person's retirement income needs are $40,000 per year and they receive $20,000 in social security benefits, then their income gap is $20,000.

$40,000 income needs for year
– $20,000 social security benefits
= $20,000 income gap

Assume they have a total investment portfolio of $500,000 that consists of an IRA, CDs and savings as well as some personal investments. Their portfolio will need to return 4% per year to match their annual need.

$20,000 income gap / $500,000 investment portfolio = 4% annual target rate of return.

Can you recall the price of a gallon of milk 20 years ago or a stamp in 1970? For the retiree who has spending needs for 20, 30, or even 40 years, there must be ***sufficient return to cover the impact of inflation***.

If it appears that the goal cannot be met, ***living expenses may need to be adjusted downward, or retirement should be deferred.***

How Long Retirement Assets Will Last

Number of Years Before Assets Are Gone

% Withdrawn Annually	2%	3%	4%	5%	6%	7%	8%	9%
2	40	50	-	-	-	-	-	-
3	28	33	39	52	-	-	-	-
4	22	25	28	33	42	-	-	-
5	18	20	22	24	29	36	54	-
6	15	16	18	19	22	25	31	44
7	13	14	15	16	18	20	22	27
8	11	12	13	14	15	16	18	20
9	10	11	11	12	13	14	15	16
10	9	10	10	10	11	12	13	14

Average Annual Return on Remaining Assets

The possibility of outliving your assets may be a very real concern. How long your retirement assets will last depends on a number of factors, including the amount you spend, your life span, and the return on your investments.

The withdrawal percentages shown refer to a percentage of the initial value of the retirement assets. The table assumes payments are increased 3% annually and are taken at the beginning of each year. Actual earnings would vary from year to year. Source: NPI.

How we achieve your goal

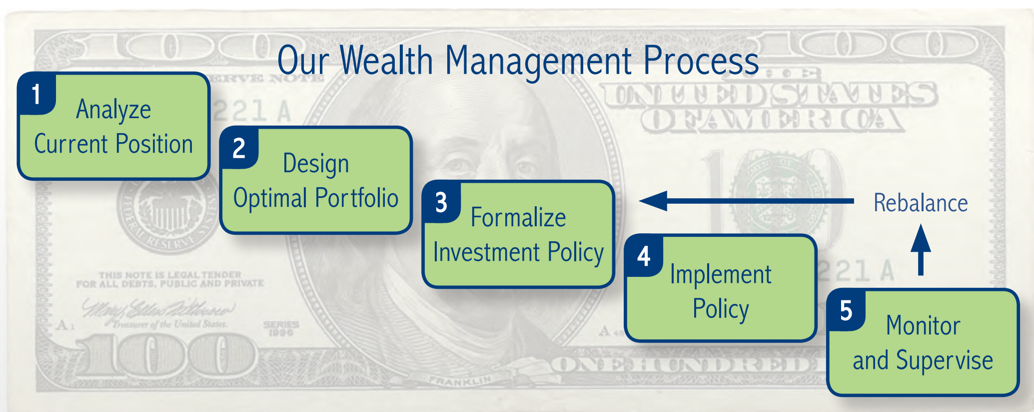
an investment strategy built around you

Individually tailored plans. Our goal is to provide long-term returns that are appropriate for your account, taking into consideration your ability and willingness to accept investment risk. You will receive a ***personal consultation*** to develop an ***appropriate investment strategy for your portfolio.***

We believe that portfolios should provide solid returns in favorable markets and be positioned to mitigate risk in unfavorable market environments. To support this, we utilize investment research from nationally recognized organizations to help achieve our goal of ***competitive total returns*** for your portfolio with well-understood risk and return characteristics.

As we work together, you can expect honest communication from us. You'll have access to reports featuring ***a clear, concise picture of your portfolio.*** In addition, ***fees are fully disclosed*** on your statements and are based upon the assets under management, not transactions or commissions, so you'll ***know what you're paying and how it's calculated.***

Our approach provides ***individualized service and expertise*** that may not be readily accessible to most investors.



Professional Portfolio Management Grounded on Accurate Market Forecasting
Sound Security Selection • Competitive Fee Structure
Solid Returns • Individually Tailored

Market forecasting sets expectations.

Investment research. We utilize a hybrid approach for capital market projections, asset allocation, and mutual fund and/or individual security selection and monitoring which combines ***our internal research with advice from strategic partners.*** This ***broad range of input*** assures that your investments receive an in-depth analysis.

Capital Market Projections. A decade ago, the casual observation would have been that stocks return 10-12% per year and bonds return 5-6%. Clearly, that has not been the experience over the last decade.

Be Careful of Averages!

The following statements are true, but misleading:

Over the past 70 years, stocks have averaged 10-12% annual returns.

Iowa's annual average temperature is 50.4˚F.

Source: www.agclassroom.org

Market returns are like the weather in Iowa—sometimes we have above-average days, sometimes we have below-average days! Over time, strong returns offset weak returns and investors' annualized performance may "average" out.

Actual investment returns in any given year may be above or below "average," but are seldom actually average!

At Hills Bank, we believe ***a more robust and professional approach*** incorporates Capital Market Projections (CMP) into the analysis. CMPs provide a forward-looking evaluation of the current economic environment, providing both a return and a risk forecast for asset classes to be utilized in your investment portfolio. The CMP is ***tested against history for reasonableness*** and ***grounded on present circumstances***.

The process of incorporating CMP into investment management helps us test if your investment goal can be met with a ***reasonable probability of success.*** The end result provides you with a ***plan to help you achieve your investment goals.***

Risk, distributions, and cash flow

Utilization of Assets. As retirement nears, people need to transition from a philosophy of asset accumulation to a strategy for utilization of assets providing a stream of income that matches their living expenses. To help visualize this think in terms of "buckets of assets."

First Bucket…1-3 Years of Distributions.

Short-term/immediate needs bucket. This is often the most overlooked, yet critical bucket! The purpose is to accommodate several years of distributions—ideally up to 3 years. Investments should be risk-free because principal protection is more important than return! Investments may include money market, short-term CDs and U.S. Government Bonds (e.g. T-Bills).

Second Bucket…3-7 Year Time Horizon.

Intermediate bucket. The primary purpose of this bucket is to generate income (e.g. interest or rent) and preserve capital. Careful consideration should be given as to how much risk you are willing to take with this bucket of assets. Investment time horizon for this bucket is typically 3-7 years. Typically investments include CDs, investment grade bonds, and income producing real estate such as farm land, commercial real estate, etc. As interest and rental income are earned, it may be used to fill Bucket 1.

Third Bucket…7+ Years.

Long-term bucket. This bucket is your hedge against inflation. A longer time horizon is needed to ride our economic and financial market volatility. This bucket typically is invested in a diversified stock portfolio and may include long-term real estate holdings such as farm land or commercial real estate. Remember to harvest your gains! Have a plan in place to trim and rebalance as market conditions permit. Dividends, rent, and appreciation of the assets may be used to increase Bucket 1 or Bucket 2.

Putting it all together ...

Managing risk, harvesting profits, and meeting distribution needs

Bucket 3. Dividends and capital appreciation/gains are distributed to Bucket 2.

Bucket 2. Interest and rent used to fill and replenish Bucket 1.

the size of your buckets will change over time

Bucket 1. Provides funds to cover lifestyle.

The household budget.

Building a portfolio that accommodates distribution needs (Bucket 1), provides stability to the portfolio by reducing volatility (Bucket 2), and hedges against inflation (Bucket 3) ***helps to aid in your ability to "ride out" difficult periods in the market.***

Successful financial planning starts with an honest assessment of the target rate of return needed, the level of risk associated with the target rate of return, and if this risk level is tolerable. In prosperous as well as difficult times, the best outcomes are the product of good planning and consistent decision making.

Consolidate your assets

Consider an IRA rollover. If you are making a career move or getting ready to retire, you may be eligible to receive a retirement plan payout. If you simply take the payout, you'll owe income taxes on the distribution, and possibly an early withdrawal penalty as well. Rolling the distribution into an individual retirement account (IRA) may be a far better choice.

Why roll your funds into an IRA? Rolling your funds into an IRA allows you to continue to benefit from tax deferral. You may have ***more investment options*** to choose from than your current plan offers. And, if you have an existing IRA or additional accounts in other employer-sponsored plans, a rollover IRA allows you to ***consolidate and streamline your retirement assets in a single, easy-to-manage account.***

Tax deferral is an important benefit. By rolling over your distribution and postponing income taxes, you'll have ***more money available for investment.*** In addition, you'll continue to benefit from potential tax-deferred growth on your rollover IRA investments. You'll pay income taxes only when you withdraw funds from your IRA. Over several years, the benefits of continuing tax deferral can make a big difference.

You can accomplish a tax-deferred rollover in two ways: by arranging for a trustee-to-trustee transfer (a "direct rollover") or by receiving the plan distribution and rolling it over to an IRA within 60 days.

Arranging a direct rollover. A direct rollover is generally the ***least complicated choice.*** You simply inform the administrator of your retirement plan that you want your funds transferred into the IRA you've established. In addition to simplicity, this approach offers another significant advantage: ***no tax withholding*** applies to distributions that roll over in a direct trustee-to-trustee transfer.

Consolidating your retirement assets. If you have multiple retirement accounts, consolidating your assets into a single rollover IRA can make it ***easier for you to keep track of*** your money and manage your investments. With a single account, you'll be better able to ***see the big picture and guard against unwanted investment overlap.*** Reviewing your portfolio's asset allocation and periodically rebalancing your portfolio will also be a lot easier. You'll receive one account statement instead of several, ***saving you time and effort.*** What's more, with a single account, it only takes one call to one advisor when you have questions or concerns about your retirement savings.

Knowledge is power

The more you know about handling your finances, ***the more likely you are to reach your goals.*** Our Financial Resource Center website is available from the comfort of your home and will help you ***identify solutions*** for your stage in life. We provide you with the ***information and tools you need to help you meet your goals.***

Your Financial Resource Center—HillsBankWealthManagement.com

Select your life stage.

- *Short Takes* give an introduction to a variety of relative topics.
- *Find Out More* with in-depth articles.
- *Helpful Tools* such as calculators and interactive tutorials can be personalized so you can analyze your unique situation.

Why Hills Bank Trust and Wealth Management

We invite you to experience Hills Bank and Trust Company and the Trust and Wealth Management Group, a strong financial organization serving our customers and shareholders in true community banking spirit since 1904.

☑ *Local ownership.*

Work with people invested in your success. As an independent community bank with over 2,100 shareholders, our employees are the largest single shareholder, so they're committed to your satisfaction.

☑ *Local service and decision making.*

When you need a broad range of collateral advice, ask our experienced wealth management advisors. With a breadth of knowledge in retirement and financial planning, trust, accounting, legal, and financial services, we have the ability to respond to your needs.

☑ *Professional portfolio management.*

Be confident knowing our investment strategy is built around you, your needs, and your goals. With broad investment expertise from internal research and advice from strategic partners, your goals are more likely to be achieved.

☑ *Clear, concise reporting.*

Whether you prefer paper or online, you will have access to reports that feature a clear, concise picture of your portfolio and its performance.

☑ *Fiduciary Services (e.g. Trusteeship).*

As a fiduciary, we make your best interest the first priority. We will act with prudence, skill, care, and diligence in the management of your assets.

☑ *Fully-disclosed fees.*

Feel at ease knowing that our interests are aligned with yours. Fees are fully disclosed and based upon the assets under management, not transactions or commissions, so you'll know what you're paying and how it's calculated.

Consider Hills!

When the time is right…consider Hills!

"How far you go in life depends on
your being tender with the young,
compassionate with the aged,
sympathetic with the striving,
and supportive of the weak and strong,
because some day in your life,
you will have been all of these."

- George Washington Carver -

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