Saving for Retirement

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.*

(area below represents pocket)

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 18 offices in three eastern Iowa counties, with 425 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 800 people, Hills Bank is one of the largest independent banks in Iowa with over 125,000 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 to 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.

Determine your financial needs. The next step involves identifying your financial and retirement needs. This will help you navigate what can sometimes feel like the maze of retirement planning. Based on your vision of retirement, work with the professionals in 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 to maintain a lifestyle consistent with your retirement plan.

rted

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 individual retirement accounts (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, certificates of deposit (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 then ***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 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.

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.

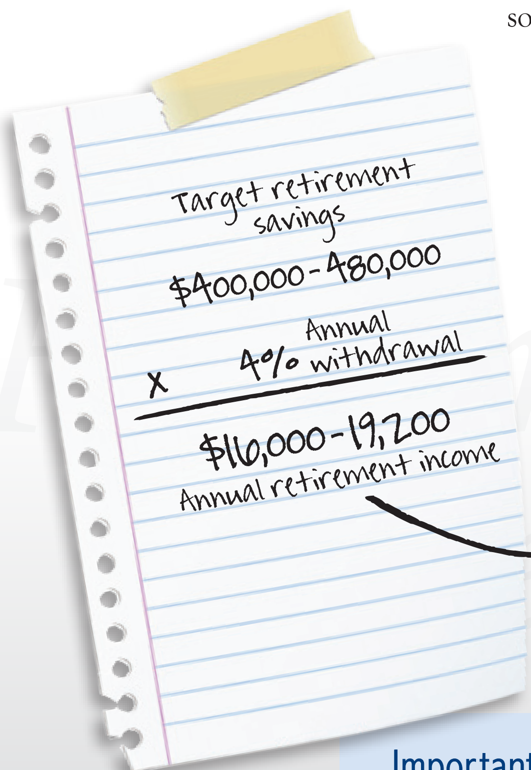
How much will I need to save?

Experts suggest that ***you will need 75-85% of your pre-retirement income to maintain your lifestyle*** throughout retirement. What changes in retirement to allow for this 15-25% decrease in your income? Ideally, your mortgage and other debts are paid off. If you have children, they are grown and living on their own. If this is not the case, your income replacement may need to be higher. Another change in retirement that may allow you to live on 75-85% of your pre-retirement income is that you are no longer "paying" into social security (a 7.65% tax on your wages!), and the "expense" of saving for retirement has come to an end.

To achieve your retirement goal, you may need to accumulate savings and investments of 10-12 times your pre-retirement annual income. To accumulate this amount of savings and investments, ***you should save at least 10-15% of your income every year.***

save at least 10-15% of your income every year

Putting it all together. Based upon these guidelines, let's assume we have a soon-to-be retiree earning $40,000 per year.



EXAMPLE

Pre-retirement income	$40,000/yr
% of pre-retirement income needed to maintain current lifestyle	x 75-85%
Target retirement income	**$30,000-34,000/yr**
Pre-retirement income	$40,000/yr
Amount to save	x 10-12
Target retirement savings	**$400,000-480,000**
Avg. Social Security benefit *(see pg. 4)*	$15,000/yr
Plus 4% withdrawal from target retirement savings	+ $16,000-19,200/yr
Retirement income	**$31,000-34,200/yr**

Goal met!

Important Guidelines:

- **10-15%** – target rate of savings and contributions to your savings and investments
- **10-12x pre-retirement income** – target amount of savings and investments at retirement
- **4%** – the ideal withdrawal rate from savings and investments during retirement

The power of compounding

Compounding transforms your working money into a state-of-the-art, highly powerful income-generating tool. When your investments generate earnings, those earnings are added to your account and reinvested. Now you have a larger pool of invested money—your contributions plus your earnings—and the opportunity to generate even more earnings on those invested funds.

Increasing the amount you are contributing increases the potential benefit you may realize from compounding. The longer your money is invested, the more you may benefit from the power of compounding. Years of regular savings and contributions, investment earnings, and compounding can help you build the balance you'll need to see you through your retirement years.

If you buy a $1 candy bar every day, it adds up to **$365** per year.

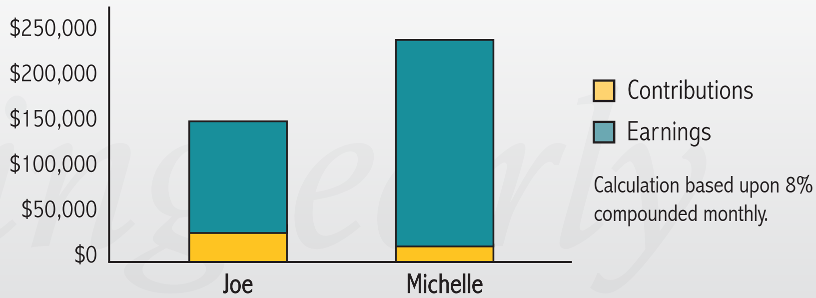
If instead you invested that $365 at the end of every year earning 8%, it would grow to $2,244 after five years. By the end of 30 years, you would have **$45,728**!

Over time, even a small amount of savings can add up to big money and help you achieve your financial goals. **That's the power of "compounding"—*a sweeter return!***

The above figures were calculated by compounding interest daily for 5 years based upon $1 invested every day.

Starting early is essential

Let's assume Joe saves $100 a month for 30 years beginning at age 35. Michelle also saves $100 a month, but only saves for 10 years beginning at age 23. Both Joe and Michelle earn an average of 8% and plan on retiring at age 65.



Who will have more in their retirement account? Michelle's balance at age 65 will be $236,000 compared to Joe's balance of $149,000. Why? Because of the impact of compounded earnings! Even though Michelle contributed less, she started early and received the benefit of compounded earnings on her investments.

Investor knowledge

Very few people stumble into financial security. For most people, the only way to attain financial security is to save and invest over a long period of time.

There are two ways your money can work for you:

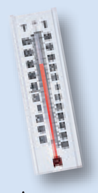
1. Interest and dividends. When you invest in a bond or bond mutual fund, someone pays you to use your money for a period of time. If you buy stock in a company that pays "dividends" to shareholders, the company pays you a portion of its earnings on a regular basis. Now ***your money is making an "income."***

2. Price appreciation. When you invest in stocks or stock mutual funds, you buy something with your ***money that could increase in value.*** When you need or want your money back, you sell the investment, potentially for a profit.

The reward for taking on investment risk is the potential for greater returns. If you have a financial goal with a long-term horizon, higher-risk assets such as stocks or stock mutual funds may be appropriate. Stable value investments such as cash, FDIC insured CDs or short-term investment grade bonds have lower risk and may be appropriate for short-term financial goals.

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.

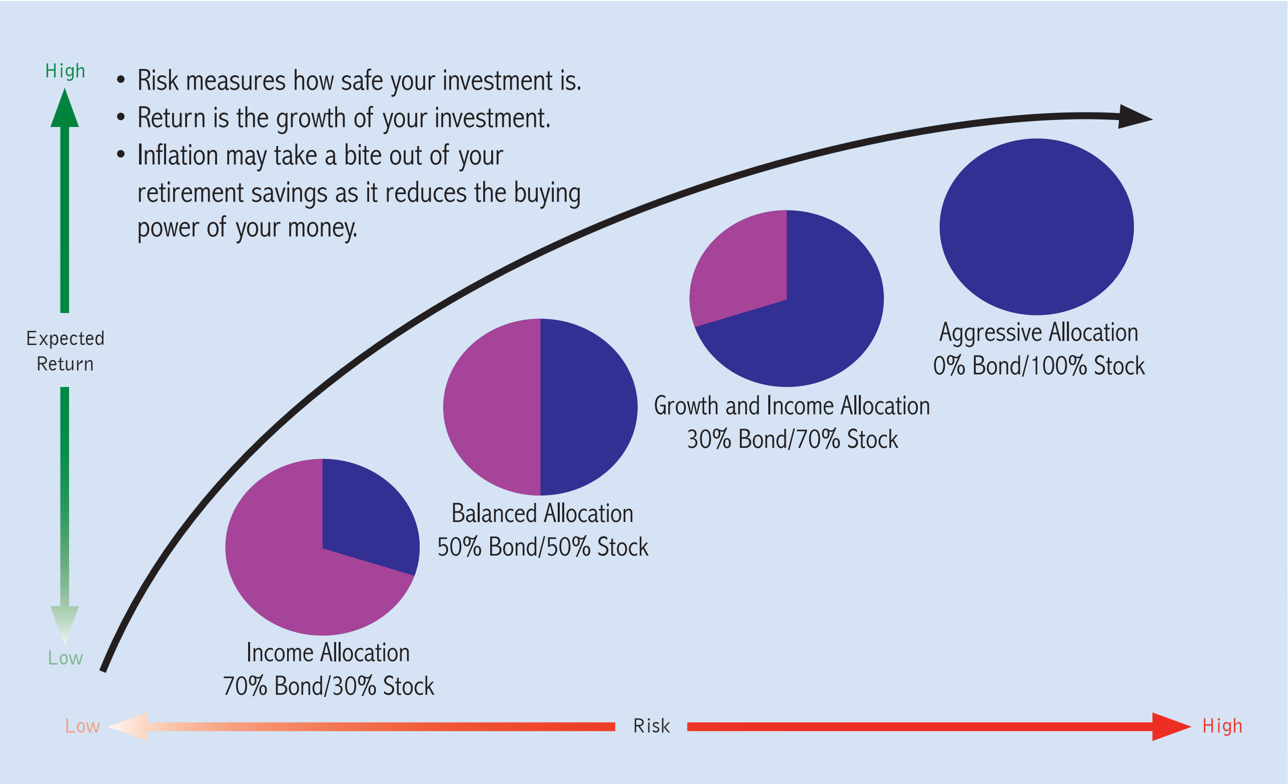
Actual investment returns in any given year may be above or below "average," but are seldom actually average!

Starting early is essential.

Risk and Return

To "balance" your portfolio's risk and return, an investor should consider allocating their portfolio among three main asset classes—stocks, bonds, and cash or stable value investments.

To determine the appropriate allocation to stocks, ***a good rule of thumb is to subtract your age from 110. The answer, or result, is the percent of your portfolio that should be allocated to stocks.*** For example, a 40-year-old investor should have approximately 70% stock allocation (110 - 40 = 70). By following this rule of thumb, an investor reduces their risk as retirement nears.



By maintaining an allocation to stocks in retirement, an investor reduces the impact of inflation on their purchasing power of their savings.

Risk and return.

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 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

Whether you are saving for college, planning your retirement or reviewing your estate plan, 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. Additional financial information and tips can be found on our blog, HillsHelps.com. 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.

The benefits of working with Hills Bank

☑ *Local ownership.*

Work with people invested in your success. As an independent community bank with over 2,200 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.

Experience the benefits.

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

(blue area below represents pocket)

Serving thousands of customers

business card slots

... one at a time.

*"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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