

# CITY STATE BANK INVEST



## THREE REGRETS OF RETIREES

A recent survey found that more than half of retirees have retirement planning regrets. Unfortunately, many of these retirees had to cut back on their lifestyles to compensate for financial shortfalls.<sup>1</sup> Considering their most common regrets may help you avoid making the same mistakes.

### NOT SAVING ENOUGH

More than one-third of retirees wish they had saved more.<sup>2</sup> How much is enough? The amount you need depends on your other sources of income and your anticipated retirement lifestyle.

It might be helpful to consider the 4% rule, a traditional guideline for the percentage of savings that you may be able to withdraw each year without depleting your nest egg over a 30-year retirement. For example, \$100,000 in savings would provide only \$4,000 in annual income. If you will need \$20,000 from your savings each year, you should have \$500,000 socked away by the time you retire. Withdrawing \$40,000 annually might require \$1 million in savings.

The longer you have before retirement, the more time you have to take advantage of long-term savings and compounding of potential returns.

If you have a workplace plan, you might start by saving enough to receive any employer match and then increase your savings percentage by 1% each year until you reach 15% or more. You may need to target a higher percentage if you get a late start. Even if retirement is coming soon, you might be surprised by how much you can save if you focus on that goal.

### RELYING TOO MUCH ON SOCIAL SECURITY

Social Security was never meant to meet all your retirement income needs. The average 2019 monthly benefit of \$1,461 for a retired worker and \$2,448 for a couple would hardly provide a comfortable retirement. The 2019 maximum worker benefit of \$2,861 at full retirement age would be better, but that would require maximum taxable Social Security earnings for at least 35 years. If you postpone claiming Social Security after reaching full retirement age, your benefit increases by 8% annually. For example, if you were born in 1960 or later, your full retirement age will be 67 under current law, so working until age 70 would increase your benefit by 24%.<sup>3</sup>

According to the most recent trustees report, Social Security may be able to pay out only 77% of scheduled retirement benefits beginning in 2034, unless Congress takes action to strengthen the program.<sup>4</sup> Considering the importance of Social Security, it seems unlikely that benefits will be reduced to that level, but this is another reason not to count too much on Social Security benefits for retirement income.

### NOT PAYING OFF DEBTS

Carrying heavy debt can be a strain at any stage of life, but it can be especially difficult for retirees living on a fixed income. Paying off your home before you retire not only reduces your monthly expenses but also provides equity that could be tapped if necessary for future needs. Before paying off your mortgage, however, it might be wise to pay off credit cards and other high-interest loans.

The road to retirement can be challenging, but avoiding the mistakes made by those who have traveled before you may help you reach your destination with fewer regrets.

1-2 National Association of Plan Advisors, December 8, 2018

3-4 Social Security Administration, 2019

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**LIVE WITHIN YOUR MEANS**

It's easy to want what your friends, colleagues, or neighbors have – and spend money to get those things. That's a mistake. Live within your means, not someone else's.

## KEY RETIREMENT AND TAX NUMBERS FOR 2020

Every year, the Internal Revenue Service announces cost-of-living adjustments that affect contribution limits for retirement plans and various tax deduction, exclusion, exemption, and threshold amounts. Here are a few of the key adjustments for 2020.

### EMPLOYER RETIREMENT PLANS

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to \$19,500 in compensation in 2020 (up from \$19,000 in 2019); employees age 50 and older can defer up to an additional \$6,500 in 2020 (up from \$6,000 in 2019).
- Employees participating in a SIMPLE retirement plan can defer up to \$13,500 in 2020 (up from \$13,000 in 2019), and employees age 50 and older can defer up to an additional \$3,000 in 2020 (the same as in 2019).

### IRAS

The combined annual limit on contributions to traditional and Roth IRAs is \$6,000 in 2020 (the same as in 2019), with individuals age 50 and older able to contribute an additional \$1,000. For individuals who are covered by a workplace retirement plan, the deduction for contributions to a traditional IRA phases out for the following modified adjusted gross income (MAGI) ranges:

	2019	2020
Single/head of household (HOH)	\$64,000-\$74,000	\$65,000-\$75,000
Married filing jointly (MFJ)	\$103,000-\$123,000	\$104,000-\$124,000
Married filing separately (MFS)	\$0-\$10,000	\$0-\$10,000

**Note:** The 2020 phaseout range is \$196,000 - \$206,000 (up from \$193,000 - \$203,000 in 2019) when the individual making the IRA contribution is not covered by a workplace retirement plan but is filing jointly with a spouse who is covered.

The modified adjusted gross income phaseout ranges for individuals to make contributions to a Roth IRA are:

	2019	2020
Single/head of household (HOH)	\$122,000-\$137,000	\$124,000-\$139,000
Married filing jointly (MFJ)	\$193,000-\$203,000	\$196,000-\$206,000
Married filing separately (MFS)	\$0-\$10,000	\$0-\$10,000

### ESTATE AND GIFT TAX

- The annual gift tax exclusion for 2020 is \$15,000, the same as in 2019.
- The gift and estate tax basic exclusion amount for 2020 is \$11,580,000, up from \$11,400,000 in 2019.

### STANDARD DEDUCTION

	2019	2020	<i>Note: The additional standard deduction amount for the blind or aged (age 65 or older) in 2020 is \$1,650 (the same as in 2019) for single/HOH or \$1,300 (the same as in 2019) for all other filing statuses. Special rules apply if you can be claimed as a dependent by another taxpayer.</i>
Single	\$12,000	\$12,400	
HOH	\$18,350	\$18,650	
MFJ	\$24,400	\$24,800	
MFS	\$12,200	\$12,400	

### ALTERNATIVE MINIMUM TAX (AMT)

	2019	2020
Maximum AMT exemption amount		
Single/HOH	\$71,700	\$72,900
MFJ	\$111,700	\$113,400
MFS	\$55,850	\$56,700

	2019	2020
Exemption phaseout threshold		
Single/HOH	\$510,300	\$518,400
MFJ	\$1,020,600	\$1,036,800
MFS	\$510,300	\$518,400

	2019	2020
26% rate on AMTI* up to this amount, 28% rate on AMTI above this amount		
MFS	\$97,400	\$98,950
All others	\$194,800	\$197,900
*Alternative minimum taxable income		



## HINDSIGHT IS 2020: WHAT WILL YOU DO DIFFERENTLY THIS YEAR?

According to a recent survey, 76% of Americans reported having at least one financial regret. Over half of this group said it had to do with savings: 27% didn't start saving for retirement soon enough, 19% didn't contribute enough to an emergency fund, and 10% wish they had saved more for college.<sup>1</sup>

### THE SAVING CONUNDRUM

What's preventing Americans from saving more? It's a confluence of factors: stagnant wages over many years; the high cost of housing and college; meeting everyday expenses for food, utilities, and child care; and squeezing in unpredictable expenses for things like health care, car maintenance, and home repairs. When expenses are too high, people can't save, and they often must borrow to buy what they need or want, which can lead to a never-ending cycle of debt.

People make financial decisions all the time, and sometimes these decisions don't pan out as intended. Hindsight is 20/20, of course. Looking back, would you change anything?

### PAYING TOO MUCH FOR HOUSING

Are housing costs straining your budget? A standard lender guideline is to allocate no more than 28% of your income toward housing expenses, including your monthly mortgage payment, real estate taxes, homeowners insurance, and association dues (the "front-end" ratio), and no more than 36% of your income to cover all your monthly debt obligations, including housing expenses plus credit card bills, student loans, car loans, child support, and any other debt that shows on your credit report and requires monthly payments (the "back-end" ratio).

But just because a lender determines how much you can afford to borrow doesn't mean you should. Why not set your ratios lower? Many things can throw off your ability to pay your monthly mortgage bill down the road — a job loss, one spouse giving up a job to take care of children, an unexpected medical expense, tuition bills for you or your child.

**Potential solutions:** To lower your housing costs, consider downsizing to a smaller home (or apartment) in the same area, researching and moving to a less expensive town or state, or renting out a portion of your current home. In addition, watch interest rates and refinance when the numbers make sense.

### PAYING TOO MUCH FOR COLLEGE

Outstanding student debt levels in the United States are off the charts, and it's not just students who are borrowing. Approximately 15 million student loan borrowers are age 40 and older, and this demographic accounts for almost 40% of all student loan debt.<sup>2</sup>

**Potential solutions:** If you have a child in college now, ask the financial aid office about the availability of college-sponsored scholarships for current students, or consider having your child transfer to a less expensive school. If you have a child who is about to go to college, run the net price calculator that's available on every college's website to get an estimate of what your out-of-pocket costs will be at that school. Look at state universities or community colleges, which tend to be the most affordable. For any school, understand exactly how much you and/or your child will need to borrow — and what the monthly loan payment will be after graduation — before signing any loan documents.

### PAYING TOO MUCH FOR YOUR CAR

Automobile prices have grown rapidly in the last decade, and most drivers borrow to pay for their cars, with seven-year loans becoming more common.<sup>3</sup> As a result, a growing number of buyers won't pay off their auto loans before they trade in their cars for a new one, creating a cycle of debt.

**Potential solutions:** Consider buying a used car instead of a new one, be proactive with maintenance and tuneups, and try to use public transportation when possible to prolong the life of your car. As with your home, watch interest rates and refinance when the numbers make sense.

### KEEPING UP WITH THE JONESES

It's easy to want what your friends, colleagues, or neighbors have — nice cars, trips, home amenities, memberships — and spend money (and possibly go into debt) to get them. That's a mistake. Live within your means, not someone else's.

**Potential solutions:** Aim to save at least 10% of your current income for retirement and try to set aside a few thousand dollars for an emergency fund (three to six months' worth of monthly expenses is a common guideline). If you can't do that, cut back on discretionary items, look for ways to lower your fixed costs, or explore ways to increase your current income.

<sup>1</sup> Bankrate's Financial Security Index, May 2019

<sup>2</sup> Federal Reserve Bank of New York, Student Loan Data and Demographics, September 2018

<sup>3</sup> The Wall Street Journal, The Seven-Year Auto Loan: America's Middle Class Can't Afford Their Cars, October 1, 2019



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## WHAT HEALTH SERVICES AREN'T COVERED BY MEDICARE?

Original Medicare – Part A hospital insurance and Part B medical insurance – offers broad coverage, but many services are not covered.

Some may be fully or partially covered by a Part C Medicare Advantage Plan, which replaces Original Medicare, or a Medigap policy, which supplements Original Medicare. Both are offered by Medicare-approved private insurers. (You cannot have both a Medicare Advantage Plan and a Medigap policy.)

Whether you are looking forward to Medicare in the future or are already enrolled, you should consider these potential expenses.

**Deductibles, copays, and coinsurance.** Costs for covered services can add up, and – unlike most private insurance – there is no annual out-of-pocket maximum. Medicare Advantage and Medigap plans may pay all or a percentage of these costs and may include an out-of-pocket maximum.

**Prescription drugs.** For coverage, you need to enroll in a Part D prescription drug plan or a Medicare Advantage plan that includes drug coverage.

**Dental and vision care.** Original Medicare does not cover routine dental or vision care. Some Medicare Advantage and Medigap plans may offer coverage for either or both of these needs. You might also consider private dental and/or vision insurance.

**Hearing care and hearing aids.** Some Medicare Advantage plans may cover hearing aids and exams.

**Medical care outside the United States.** Original Medicare does not offer coverage outside the United States. Some Medicare Advantage and Medigap plans offer coverage for emergency care abroad. You can also purchase a private travel insurance policy.

**Long-term care.** Medicare does not cover "custodial care" in a nursing home or home health care. You may be able to purchase long-term care (LTC) insurance from private insurers.

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