City State Bank Trusts & Investments
Fall 2018 Newsletter

CITY STATE BANK INVEST

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SETTING A RETIREMENT INCOME GOAL

No matter what your age or stage of life, targeting a goal for monthly retirement income can seem like a daunting task. Following are four considerations to help you get started.

1. WHEN DO YOU PLAN TO RETIRE?

The first question to ponder is your anticipated retirement age. Many people base their target retirement date on when they're eligible for full Social Security benefits, and for today's workers, "full retirement age" ranges from 66 to 67. Other folks hope to retire early, while still others want to work as long as possible.

If you plan to retire early, you'll need significant resources to provide income for potentially decades. You can typically tap your employer-sponsored retirement plan without penalty as early as age 55 if you terminate your employment, but if you try to access IRA assets prior to age 59½, you will be subject to a 10% early withdrawal penalty, unless an exception applies. In both cases, regular income taxes will apply. Also consider that you generally won't be eligible for Medicare until age 65, so unless you are one of the lucky few who have employer-sponsored retiree medical benefits, health insurance will have to be funded out of pocket.

If you plan to delay retirement, consider that unexpected circumstances could throw a wrench in that plan. In its 2017 Retirement Confidence Survey, the Employee Benefit Research Institute (EBRI) found that nearly half of retirees said they retired earlier than planned, with many reporting unexpected challenges, including their own health concerns or those of a family member.[1]

2. HOW LONG WILL YOUR RETIREMENT LAST?

The second important consideration, which builds on the first, is how long your retirement might last. Projected life spans have been lengthening in recent decades due in part to advancements in medical care and general health awareness. According to the National Center for Health Statistics (NCHS), a 65-year-old woman can expect to live 20.6 more years, while a 65-year-old man can expect to live 18 more years.[2]

3. WHAT WILL YOUR EXPENSES LOOK LIKE?

Consider how much you will need to meet your basic living expenses. Although your housing, commuting, and other work-related expenses may decrease in retirement, other costs — including health care — will likely rise. In 2017, EBRI calculated that Medicare recipients with median prescription drug expenses may need about $265,000 just to pay for basic medical expenses in retirement.[3] And that doesn't even include the potential for long-term care. In addition, remember to account for the impact inflation will have on your expenses over time.

4. HOW MUCH CAN YOU ACCUMULATE?

This is perhaps the most important consideration: How much can you realistically accumulate between now and retirement based on your current savings rate, timeframe, investment portfolio, and lifestyle? Once you project your total accumulation amount based on current circumstances, you can gauge whether you're on track or falling short. And if you appear to be falling short, you can begin to think about how to refine your strategy, either by altering your plans for retirement (e.g., delaying retirement by a few years), saving more, or investing more aggressively.

[1]EBRI Issue Brief, March 21, 2017
[2]NCHS Issue Brief, Number 293, December 2017
[3]EBRI Notes, January 31, 2017

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CITY STATE BANK
TRUST & INVESTMENTS

1104 Sunset Drive, Ste. B
Norwalk, IA 50211
515-981-1400

100 NE Jacob Street
Grimes, IA 50111
515-986-2265

trustandinvestments@citystatebank.com

www.citystatebank.com

Trust & Investments

SETTLING AN ESTATE:
EXECUTORS INHERIT IMPORTANT TITLE

Being named as the executor of a family member's estate is generally an honor. It means that person has been chosen to handle the financial affairs of the deceased individual and is trusted to help carry out his or her wishes.

Settling an estate, however, can be a difficult and time-consuming job that could take several months to more than a year to complete.

WHAT IS AN EXECUTOR?

An executor is a personal representative who acts for you after your death. You nominate or designate an executor in your will to settle your estate. The person chosen will act in your place to make decisions you would have made if you were still alive. The probate court has final approval, but the court will generally confirm your nomination unless there are compelling reasons not to. An executor's responsibilities typically last from nine months to two years (although, an estate may remain open for several years because of will contests or tax problems).

The functions of an executor are varied, but generally your executor:

- Locates and probates your will
- Inventories, collects, and sells (if necessary) your assets
- Pays legitimate creditor claims
- Pays any taxes owed by your estate
- Distributes any remaining assets to your beneficiaries

Your executor is entitled to a fee from your estate for services rendered.

WHAT ARE THE DUTIES OF AN EXECUTOR?

Your executor acts in a fiduciary capacity. This means that he or she must exercise a high degree of care at all times. Additionally, your executor is under court supervision, subject to its control and approval.

The executor is personally responsible for ensuring that all the proper tax returns are filed and that any estate taxes due are paid. Finally, your executor is accountable to the court and to your beneficiaries on completion of his or her duties.

HOW DO YOU SELECT AN EXECUTOR?

Your choice of executor is a very important one. Ideally, you want someone you can trust, who has a close relationship to your family, who has some understanding of tax laws, and who has a keen sense of business (especially if you are a business owner). You can name multiple executors to oversee different aspects of your affairs. However, co-executors may result in an increase in paperwork and a slowdown in the probate process.

Some of the attributes you should look for in a good executor are:

- Ability to serve
- Willingness to serve
- Competency
- Trustworthiness
- Appreciation of your family's needs
- Knowledge and experience

INDIVIDUAL VS. PROFESSIONAL

When choosing an executor, you can name an individual or a professional (e.g., a bank trust department) to handle your affairs.

A family member or close friend has knowledge of your affairs and should take a personal interest in the settlement of your estate and the well-being of your beneficiaries. However, he or she may not be the best choice. Serving as an executor is a time consuming and stressful task. Some of the executor's duties are very demanding: preparing and filing tax returns, obtaining appraisals, making an accurate accounting, and these are things best left to professionals. By naming a professional to manage your affairs, you gain some permanence. A professional who makes money from managing estates will have the investment expertise as well as the legal, tax, accounting, and computer abilities to do the job well and efficiently. You also gain some impartiality by having a professional manage your affairs.

MID-YEAR PLANNING: TAX CHANGES TO FACTOR IN

The Tax Cuts and Jobs Act, passed in December of last year, fundamentally changes the federal tax landscape for both individuals and businesses. Many of the provisions in the legislation are permanent, others (including most of the tax cuts that apply to individuals) expire at the end of 2025. Here are some of the significant changes you should factor in to any mid-year tax planning. You should also consider reviewing your situation with a tax professional.

NEW LOWER MARGINAL INCOME TAX RATES

In 2018, there remain seven marginal income tax brackets, but most of the rates have dropped from last year. The new rates are 10%, 12%, 22%, 24%, 32%, 35%, and 37%. Most, but not all, will benefit to some degree from the lower rates. For example, all other things being equal, those filing as single with taxable incomes between approximately $157,000 and $400,000 may actually end up paying tax at a higher top marginal rate than they would have last year. Consider how the new rates will affect you based on your filing status and estimated taxable income.

HIGHER STANDARD DEDUCTION AMOUNTS

Standard deduction amounts are nearly double what they were last year, but personal exemptions (the amount, $4,050 in 2017, that you could deduct for yourself, and potentially your spouse and your dependents) are no longer available. Additional standard deduction amounts allowed for the elderly and the blind remain available for those who qualify. If you're single or married without children, the increase in the standard deduction more than makes up for the loss of personal exemption deductions. If you're a family of four or more, though, the math doesn't work out in your favor.

ITEMIZED DEDUCTIONS — GOOD AND BAD

The overall limit on itemized deductions that applied to higher-income taxpayers is repealed, the income threshold for deducting medical expenses is reduced for 2018, and the income limitations on charitable deductions are eased. That's the good news. The bad news is that the deduction for personal casualty and theft losses is eliminated, except for casualty losses suffered in a federal disaster area, and miscellaneous itemized deductions that would be subject to the 2% AGI threshold, including tax-preparation expenses and unreimbursed employee business expenses, are no longer deductible. Other deductions affected include:

- **State and local taxes** — Individuals are only able to claim an itemized deduction of up to $10,000 ($5,000 if married filing a separate return) for state and local property taxes and state and local income taxes (or sales taxes in lieu of income).
- **Home mortgage interest deduction** — Individuals can deduct mortgage interest on no more than $750,000 ($375,000 for married individuals filing separately) of qualifying mortgage debt. For mortgage debt incurred prior to December 16, 2017, the prior $1 million limit will continue to apply. No deduction is allowed for interest on home equity loans or lines of credit unless the debt is used to buy, build or substantially improve a principal residence or a second home.

OTHER IMPORTANT CHANGES

- **Child tax credit** — The credit has been doubled to $2,000 per qualifying child, refundability has been expanded, and the credit will now be available to many who didn't qualify in the past based on income; there's also a new nonrefundable $500 credit for dependents who aren't qualified children for purposes of the credit.
- **Alternative minimum tax (AMT)** — The Tax Cuts and Jobs Act significantly narrowed the reach of the AMT by increasing AMT exemption amounts and dramatically increasing the income threshold at which the exemptions begin to phase out.
- **Roth conversion recharacterizations** — In a permanent change that starts this year, Roth conversions can't be "undone" by recharacterizing the conversion as a traditional IRA contribution by the return due date.

Trust & Investments

WHAT IS GROSS DOMESTIC PRODUCT, AND WHY IS IT IMPORTANT TO INVESTORS?

GDP, or gross domestic product, measures the value of goods and services produced by a nation's economy less the value of goods and services used in production. In essence, GDP is a broad measure of the nation's overall economic activity and serves as a gauge of the country's economic health. Countries with the largest GDP are the United States, China, Japan, Germany, and the United Kingdom.

GDP generally provides economic information on a quarterly basis and is calculated for most of the world's countries, allowing for comparisons among various economies. Important information that can be gleaned from GDP includes:

- A measure of the prices paid for goods and services purchased by, or on behalf of, consumers (personal consumption expenditures), including durable goods (such as cars and appliances), nondurable goods (food and clothing), and services (transportation, education, and banking)
- Personal (pre-tax) and disposable (after-tax) income and personal savings
- Residential (purchases of private housing) and nonresidential investment (purchases of both nonresidential structures and business equipment and software, as well as changes in inventories)
- Net exports (the sum of exports less imports)
- Government spending on goods and services

GDP can offer valuable information to investors, including whether the economy is expanding or contracting, trends in consumer spending, the status of residential and business investing, and whether prices for goods and services are rising or falling. A strong economy is usually good for corporations and their profits, which may boost stock prices. Increasing prices for goods and services may indicate advancing inflation, which can impact bond prices and yields. In short, GDP provides a snapshot of the strength of the economy over a specific period and can play a role when making financial decisions. All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

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CITY STATE BANK TRUST & INVESTMENTS

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CONTACT INFORMATION

Grimes
100 NE Jacob St
Grimes, IA 50111
515-986-2265

Indianola
1510 N. 1st St.
Indianola, IA 50125
515-961-7000

Madrid
105 E. 2nd St.
Madrid, IA 50156
515-795-3807

Norwalk
801 Main St.
Norwalk, IA 50211
515-981-4234

Martensdale
368 N. Hwy 28
Martensdale, IA 50160
641-764-2265

Mount Ayr
103 W. South St.
Mount Ayr, IA 50854
641-464-3555

New Virginia
501 West St.
New Virginia, IA 50210
641-449-3314

Trust & Investments*
1104 Sunset Dr., Ste B
Norwalk, IA 50211
515-981-1400

Insurance Services**
1037 Sunset Drive
Norwalk, IA 50211
515-981-0434

316 S. Kennedy Ave
Madrid, IA 50156
515-795-5112

219 S.E. Main Street
Grimes, IA 50111
515-986-3306

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