City State Bank Trusts & Investments
Spring 2019 Newsletter

# CITY STATE BANK INVEST

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## STICKING WITH YOUR PLAN IS CRUCIAL FOR INVESTORS

After logging strong returns in 2017, global equity markets delivered negative returns in US dollar terms in 2018. Common news stories in 2018 included reports on global economic growth, corporate earnings, record low unemployment in the US, the implementation of Brexit, US trade wars with China and other countries, and a flattening US Treasury yield curve. Global equity markets delivered positive returns through September, followed by a decline in the fourth quarter, resulting in a –4.4% return for the S&P 500 and –9.4% for the MSCI All Country World Index for the year.

The increased market volatility and a 20% intra year correction from peak to trough in the fourth quarter of 2018 underscores the importance of following an investment approach based on diversification and discipline rather than prediction and timing. The below exhibit illustrates the performance of markets after declines of 10%, 20%, and 30%. After declines of 10% or more, equity returns over the subsequent 12 months have been positive 71% of the time in US markets and 72% of the time in other developed markets. Maintaining discipline and sticking to your plan is crucial if investors want to effectively pursue the long-term returns the capital markets offer.

### AVERAGE COMPOUND RETURNS FOR STOCKS IN A FOLLOWING 12-MONTH PERIOD

| MARKET DECLINE CUTOFF | US LARGE CAPS | NON-US DEVELOPED MKTS LARGE CAPS | EMERGING MKTS LARGE CAPS |
|---|---|---|---|
| 10% | 11.25% | 11.18% | 13.51% |
| 20% | 11.61% | 14.44% | 21.52% |
| 30% | 14.31% | 19.07% | 30.05% |

*Past performance is not a guarantee of future results. Declines are defined as points in time, measured monthly, when the market's return since the prior market maximum has declined by at least 10%, 20% or 30%, depending on the cutoff. Declines after December 2017 are not included, but subsequent 12-month returns can include 2018 returns. Compound returns are computed for the 12 months after each decline observed and averaged across all declines for the cutoff. US Large Cap is the S& P 500 Index, from January 1926 through December 2018, provided by Standard & Poor's Index Services Group, Non-US Developed Markets Large Cap is the MSCI World ex USA Index (gross div.), from January 1970 through December 2018. Emerging Markets Large Cap is the MSCI Emerging Markets Index (gross div.) from January 1988 through December 2018. MSCI data © MSCI 2019, all rights reserved.*

> *"Maintaining discipline and sticking to your plan is crucial if investors want to effectively pursue the long-term returns the capital markets offer."*



## INSIDE THIS ISSUE



CITY STATE CS 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

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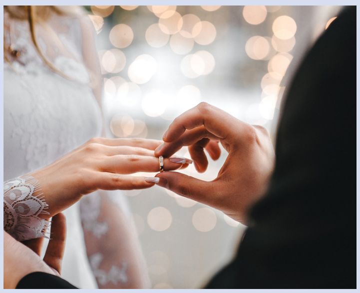
# REVIEWING YOUR ESTATE PLAN

An estate plan is a map that explains how you want your personal and financial affairs to be handled in the event of your incapacity or death. Due to its importance and because circumstances change over time, you should periodically review your estate plan and update it as needed.



*An estate plan should be reviewed periodically, especially after a major life event. Here are some ideas about when to review your estate plan and some things to review when you do.*

## WHEN SHOULD YOU REVIEW YOUR ESTATE PLAN?

Reviewing your estate plan will alert you to any changes that need to be addressed. For example, you may need to make changes to your plan to ensure it meets all of your goals, or when an executor, trustee, or guardian can no longer serve in that capacity. Although there's no hard-and-fast rule about when you should review your estate plan, you'll probably want to do a quick review each year, because changes in the economy and in the tax code often occur on a yearly basis. Every five years, do a more thorough review.

You should also review your estate plan immediately after a major life event or change in your circumstances. Events that should trigger a review include:

- There has been a change in your marital status (many states have laws that revoke part or all of your will if you marry or get divorced) or that of your children or grandchildren.
- There has been an addition to your family through birth, adoption, or marriage (stepchildren).
- Your spouse or a family member has died, has become ill, or is incapacitated.
- Your spouse, your parents, or another family member has become dependent on you.
- There has been a substantial change in the value of your assets or in your plans for their use.
- You have received a sizable inheritance or gift.
- Your income level or requirements have changed.
- You are retiring.
- You have made (or are considering making) a change to any part of your estate plan.

## SOME THINGS TO REVIEW

Here are some things to consider while doing a periodic review of your estate plan:

- Who are your family members and friends? What is your relationship with them? What are their circumstances in life? Do any have special needs?
- Do you have a valid will? Does it reflect your current goals and objectives about who receives what after you die? Is your choice of an executor or a guardian for your minor children still appropriate?
- In the event you become incapacitated, do you have a living will, durable power of attorney for health care, or Do Not Resuscitate order to manage medical decisions?
- In the event you become incapacitated, do you have a living trust or durable power of attorney to manage your property?
- What property do you own and how is it titled (e.g., outright or jointly with right of survivorship)? Property owned jointly with right of survivorship passes automatically to the surviving owner(s) at your death.
- Have you reviewed your beneficiary designations for your retirement plans and life insurance policies? These types of property pass automatically to the designated beneficiaries at your death.
- Do you have any trusts, living or testamentary? Property held in trust passes to beneficiaries according to the terms of the trust. There are up-front costs and often ongoing expenses associated with the creation and maintenance of trusts.
- Do you plan to make any lifetime gifts to family members or friends?
- Do you have any plans for charitable gifts or bequests?
- If you own or co-own a business, have provisions been made to transfer your business interest? Is there a buy-sell agreement with adequate funding? Would lifetime gifts be appropriate?
- Do you own sufficient life insurance to meet your needs at death? Have those needs been evaluated?
- Have you considered the impact of gift, estate, generation-skipping, and income taxes, both federal and state?

This is just a brief overview of some ideas for a periodic review of your estate plan. Each person's situation is unique. An estate planning attorney may be able to assist you with this process.

# KEY RETIREMENT AND TAX NUMBERS FOR 2019

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 2019.

## EMPLOYER RETIREMENT PLANS

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to $19,000 in compensation in 2019 (up from $18,500 in 2018); employees age 50 and older can defer up to an additional $6,000 in 2019 (the same as in 2018).
- Employees participating in a SIMPLE retirement plan can defer up to $13,000 in 2019 (up from $12,500 in 2018), and employees age 50 and older can defer up to an additional $3,000 in 2019 (the same as in 2018).

## IRAS

The combined annual limit on contributions to traditional and Roth IRAs increased to $6,000 in 2019 (up from $5,500 in 2018), 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 is phased out for the following modified adjusted gross income (AGI) ranges:

| | 2018 | 2019 |
|---|---|---|
| Single/head of household (HOH) | $63,000 - $73,000 | $64,000 - $74,000 |
| Married filing jointly (MFJ) | $101,000 - $121,000 | $103,000 - $123,000 |
| Married filing separately (MFS) | $0 - $10,000 | $0 - $10,000 |

**Note:** *The 2019 phaseout range is $193,000 - $203,000 (up from $189,000 - $199,000 in 2018) 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 AGI phaseout ranges for individuals to make contributions to a Roth IRA are:

| | 2018 | 2019 |
|---|---|---|
| Single/head of household (HOH) | $120,000 - $135,000 | $122,000 - $137,000 |
| Married filing jointly (MFJ) | $189,000 - $199,000 | $193,000 - $203,000 |
| Married filing separately (MFS) | $0 - $10,000 | $0 - $10,000 |

## ESTATE AND GIFT TAX

- The annual gift tax exclusion for 2019 is $15,000, the same as in 2018.
- The gift and estate tax basic exclusion amount for 2019 is $11,400,000, up from $11,180,000 in 2018.

## KIDDIE TAX

Under the kiddie tax rules, unearned income above $2,200 in 2019 (up from $2,100 in 2018) is taxed using the trust and estate income tax brackets. The kiddie tax rules apply to: (1) those under age 18, (2) those age 18 whose earned income doesn't exceed one-half of their support, and (3) those ages 19 to 23 who are full-time students and whose earned income doesn't exceed one-half of their support.

## STANDARD DEDUCTION

| | 2018 | 2019 |
|---|---|---|
| Single | $12,000 | $12,200 |
| HOH | $18,000 | $18,350 |
| MFJ | $24,000 | $24,400 |
| MFS | $12,000 | $12,200 |

**Note:** *The additional standard deduction amount for the blind or aged (age 65 or older) in 2019 is $1,650 (up from $1,600 in 2018) for single/HOH or $1,300 (the same as in 2018) for all other filing statuses. Special rules apply if you can be claimed as a dependent by another taxpayer.*

## ALTERNATIVE MINIMUM TAX (AMT)

| | 2018 | 2019 |
|---|---|---|
| Maximum AMT exemption amount | | |
| Single/HOH | $70,300 | $71,700 |
| MFJ | $109,400 | $111,700 |
| MFS | $54,700 | $55,850 |
| Exemption phaseout threshold | | |
| Single/HOH | $500,000 | $510,300 |
| MFJ | $1,000,000 | $1,020,600 |
| MFS | $500,000 | $510,300 |
| 26% rate on AMTI* up to this amount, 28% rate on AMTI above this amount | | |
| MFS | $95,550 | $97,400 |
| All others | $191,100 | $194,800 |

*Alternative minimum taxable income

What is an Alternative Minimum Tax?

AMT, an alternative minimum tax (AMT) recalculates income tax after adding certain tax preference items back into adjusted gross income. AMT uses a separate set of rules to calculate taxable income after allowed deductions. Preferential deductions are added back into the taxpayer's income to calculate his or her alternative minimum taxable income (AMTI), and then the AMT exemption is subtracted to determine the final taxable figure.

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# HAVE YOU HAD A FINANCIAL PHYSICAL LATELY?

We all know how important a physical is to stay up-to-date on changes in your health, but what about your financial health? Financial status, life events, and financial goals are constantly changing. Is your investment account changing with it?

**Contact City State Bank Trust & Investments today for a financial review.**

**1104 Sunset Drive, Ste. B • Norwalk, IA 50211 • 515-981-1400**
**100 NE Jacob Street • Grimes, IA 50111 • 515-986-2265**
**www.citystatebank.com**

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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 SE Main Street
Grimes, IA 50111
515-986-3306

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