

FINANCIAL AND RETIREMENT PLANNING



WEALTH MANAGEMENT

(area below represents pocket)



Hills Bank was founded in 1904 on the principle that banks should care about the people and communities they serve, as well as provide ways to help them prosper. We have done business this way for over a century with a staff that is appreciative, approachable, creative, and competent.

Above: A look inside the original Hills Bank office on November 3, 1924. Pictured [left to right] are Derwood Horton, Manager of Hills Lumber Yard; Joseph Healy, Bank Cashier; Albert Droll, Assistant Cashier (at time of photo).

Hills Bank Trust and Wealth Management has managed assets for charitable organizations since the late 1950s. Today, we continue to play a leadership role by offering quality and enduring services to individuals, businesses, non-profits, and charitable organizations that support our communities.

Hills Bank and our employees are committed to the communities we serve.

- Cash and in-kind donations to more than 750 local organizations
- Classroom Cash® - over \$1.275 million donated to area schools
- Summer Reading Programs - improving literacy in more than 20 local communities since 1987
- Leadership Grant and Youth Salute programs recognizing outstanding student leaders from our area high schools
- Thousands of employee volunteer hours each year

We seek to support our communities, so they can continue to be a great place to live and work.

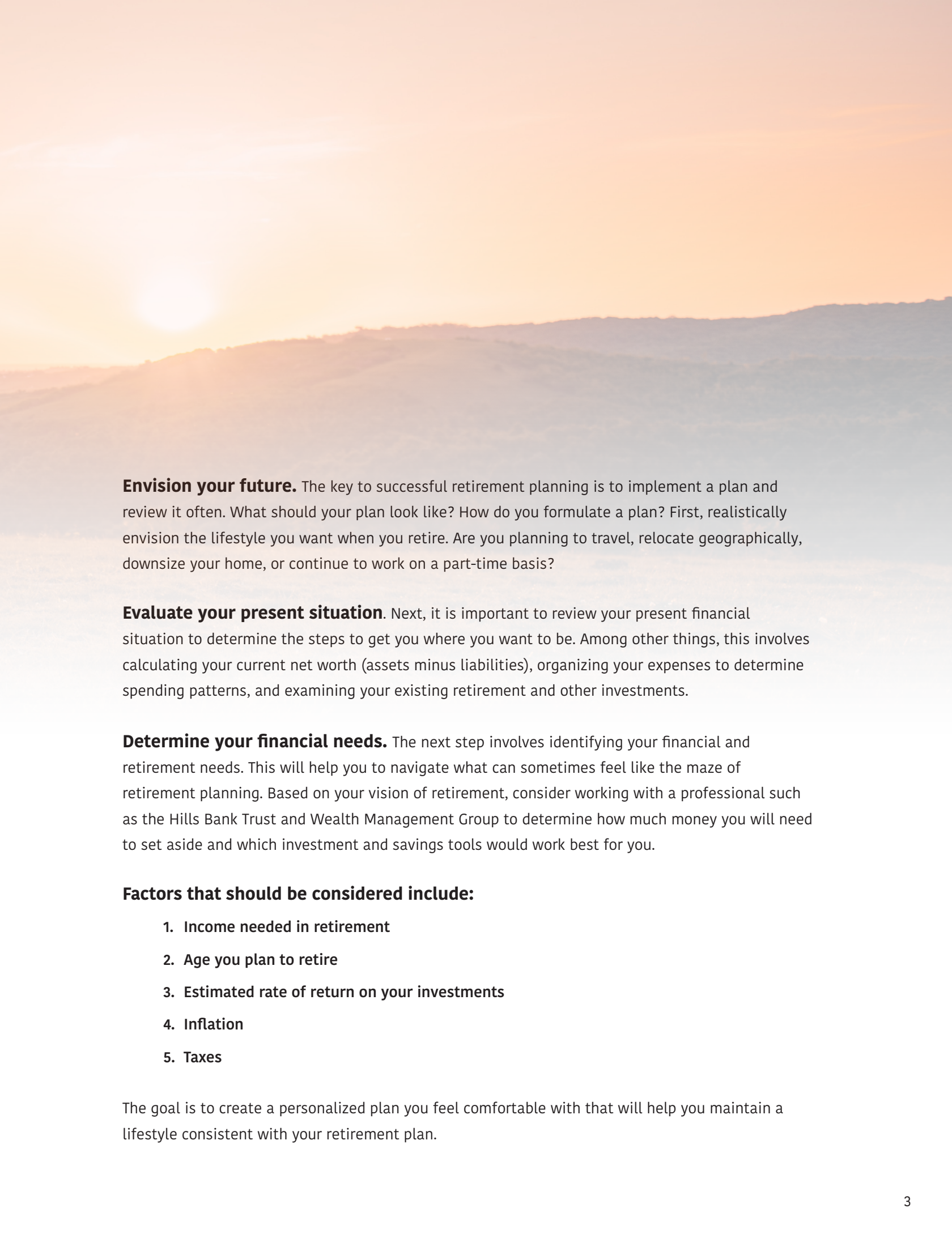


FINANCIAL PLANNING

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.



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.

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.

Factors that should be considered include:

1. **Income needed in retirement**
2. **Age you plan to retire**
3. **Estimated rate of return on your investments**
4. **Inflation**
5. **Taxes**

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 \$1,600 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

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

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.

% Withdrawn Annually	Number of Years Before Assets Are Gone								
	2%	3%	4%	5%	6%	7%	8%	9%	10%
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	-

HOW WE ACHIEVE YOUR GOAL

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.

OUR WEALTH MANAGEMENT PROCESS



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

Market forecasting sets expectations.

Investment research.

When selecting and monitoring funds or securities, we utilize a hybrid approach which combines our internal research with advice from strategic partners. This broad range of input ensures that your investments receive an in-depth analysis.

Capital Market Projections.

Historical returns, while accurate, may not accurately represent realistic forward returns. At Hills Bank, we believe a more robust and professional approach incorporates Capital Market Projections (CMPs) 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 that may be used in your investment portfolio. The CMP is tested against history for reasonableness and grounded on present circumstances.

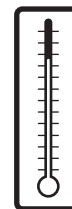
CMPs are not meant to peg the actual return of a portfolio. Rather, CMPs help quantify the range of return outcomes a portfolio may experience.

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.

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!



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 using assets to provide 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 out 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.

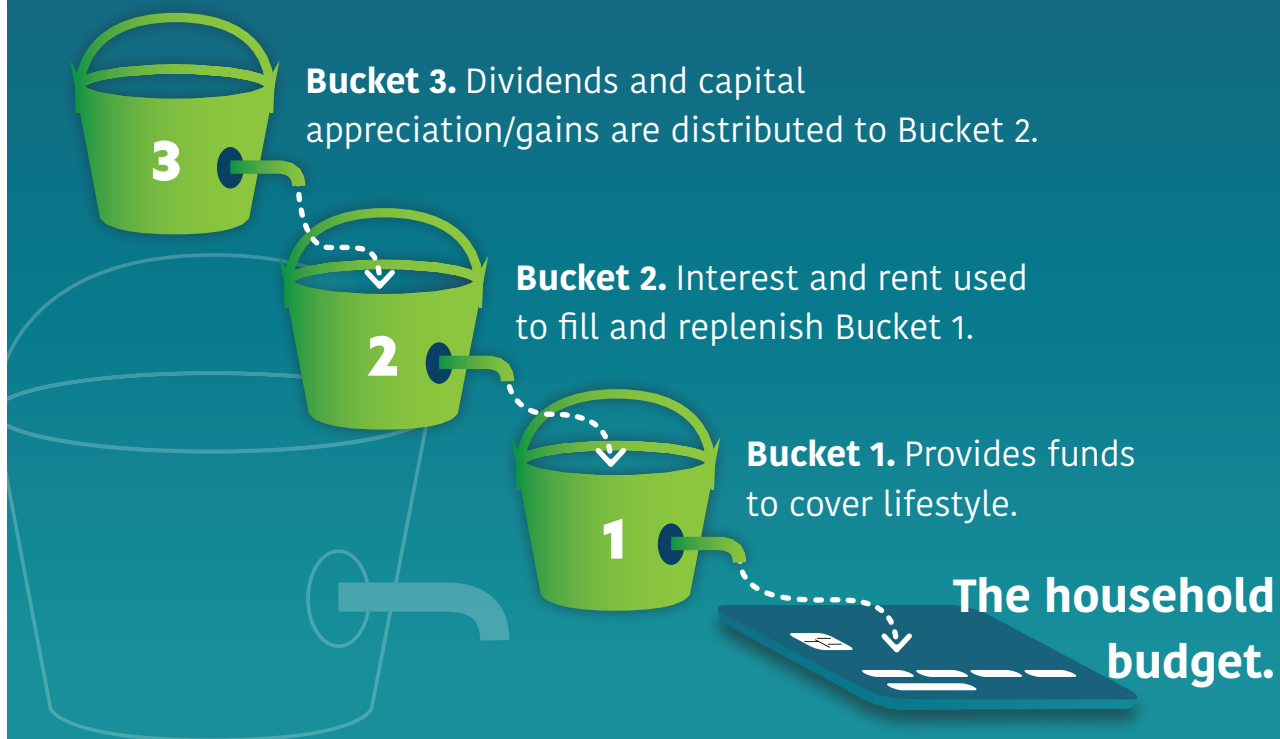


Building a portfolio that accommodates distribution needs (Bucket 1), provides stability to the portfolio by reducing volatility (Bucket 2), and hedges against inflation (Bucket 3) **helps to aid in your ability to “ride out” difficult periods in the market.**

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.

PUTTING IT ALL TOGETHER

Managing risk, harvesting profits, and meeting distribution needs





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

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 website can help you identify financial solutions for your stage in life. We provide you with the information and tools you need to help you meet your goals.

www.hillsbank.com/wealthmanagement

WHY HILLS BANK

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

Strength and stability.

- \$4 billion Iowa-based bank with 19 locations in the Cedar Rapids/Iowa City Corridor
- Trust and Wealth Management assets exceed \$2.5 billion
- Over 500 bank-wide employees and a Trust and Wealth Management staff of 40+
- Trust and Wealth Management staff with over 475 years of cumulative experience

Local ownership.

Work with people invested in your success. As an independent community bank with over 2,700 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 comprehensive advice, ask our experienced wealth management advisors. With a breadth of knowledge in retirement and financial planning, trust, legal and investment services, we have the ability to respond to your needs.

Clear, concise reporting.

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

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.



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Investment products are not a deposit, not FDIC insured, not insured by any federal government agency, carry no bank guarantee, and may go down in value.

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