

THE KEY



AUGUST 2010



**Farmers
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Building Your Success

UNLOCKING YOUR
FINANCIAL OPPORTUNITIES

SKETCHING YOUR FUTURE

IN THIS ISSUE:

MEASURING THE GAP,
SAVING YOUR RETIREMENT &
THE 411 ON 401(K)

CD RATES:

9-13 Mo. - 1.30%^{APY*}

16-18 Mo. - 1.70%^{APY*}

25-30 Mo. - 2.00%^{APY*}

60-67 Mo. - 2.80%^{APY*}

IRA CD RATE:

36 Mo. - 2.50%^{APY*}

*APY = Annual Percentage Yield. IRA = Individual Retirement Account. Qualified funds only. Substantial penalty for early withdrawal. Rates subject to change daily. \$1,000 minimum opening deposit for 16-18 month, 25-30 month, 36 month and 60-67 month terms. \$2,000 minimum opening deposit for 9-13 month term. 9-13 month CD interest rate 1.29%, 16-18 month CD interest rate 1.69%, 25-30 month CD interest rate 1.99%, 36 month IRA interest rate 2.48%, 60-67 month CD interest rate 2.78%. Interest compounds semi-annually for 16-18 month, 25-30 month, 36 month & 60-67 month CD's and every 3 months for 9-13 month CD. Effective 8/1/2010.

Although most of us recognize the importance of sound financial planning, few of us embrace the nitty-gritty work involved. With thousands of investment possibilities, complex rules governing retirement plans, and so on, most people don't even know where to begin. Here are some suggestions to help you get started.

Some experts suggest that you need anywhere from 60% to 90% of your current income to enable you to maintain your current standard of living in retirement. But this is only a general guideline. To determine your specific needs, you may want to estimate your annual retirement expenses. Use your current expenses as a starting point, but note that your expenses may change dramatically by the time you retire.

If you're nearing retirement, the gap between your current expenses and your retirement expenses may be small. If retirement is many years

away, the gap may be significant, and projecting your future expenses may be more difficult.

Remember to take inflation into account. The average annual rate of inflation over the past 20 years has been approximately 3%. (Source: Consumer price index (CPI-U) data published by the U.S. Department of Labor, 2009.)

Keep in mind that your annual expenses may fluctuate throughout retirement. For instance, if you own a home and are paying a mortgage, your expenses will drop if the mortgage is paid off by the time you retire.

Other expenses, such as health-related expenses, may increase in your later retirement years. A realistic estimate of your expenses will tell you about how much annual income you'll need to live comfortably. To start sketching your plan, contact a financial planner.



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MEASURING THE GAP



Once you have estimated your retirement income needs, take stock of your estimated future assets and income. These may come from Social Security, a retirement plan at work, a part-time job, and other sources. If estimates show that your future assets and income will fall short of what you need, the rest will have to come from additional personal retirement savings.

By the time you retire, you'll need a nest egg that will provide you with enough income to fill the gap left by your other income sources. But exactly how much is enough? The following questions may help you find the answer:

- At what age do you plan to retire? The younger you retire, the longer your retirement will be, and the more money you'll need to carry you through it.
- What kind of lifestyle do you hope to maintain during your retirement years?
- What is your life expectancy? The longer you live, the more years of retirement you'll have to fund.
- What rate of growth can you expect from your savings now and during retirement? Be conservative when projecting rates of return.
- Do you expect to dip into your principal? If so, you may deplete your savings faster than if you just live off investment earnings. Build in a cushion to guard against these risks.



SAVING YOUR RETIREMENT

When you know roughly how much money you'll need, your next goal is to save that amount. First, you'll have to map out a savings plan that works for you. Assume a conservative rate of return (e.g., 5 to 6%), and then determine approximately how much you'll need to save every year between now and your retirement to reach your goal.

The next step is to put your savings plan into action. It's never too early to get started (ideally, begin saving in your 20's). To the extent possible, you may want to arrange to have certain amounts taken directly from your paycheck and automatically invested in accounts of your choice (e.g., 401(k) plans, payroll deduction savings).

This arrangement reduces the risk of impulsive or unwise spending that will threaten your savings plan. If possible, save more than you think you'll need to provide a cushion. For more information schedule a meeting with a financial professional today!



*APY = Annual Percentage Yield



USING THE RIGHT TOOLS

The following are some of the most common retirement savings tools:

- Employer-sponsored retirement plans like 401(k)s and 403(b)s are powerful savings tools. Your contributions come out of your salary as pretax contributions (reducing your current taxable income) and any investment earnings grow tax deferred until withdrawn.
- Some 401(k) and 403(b) plans also allow employees to make aftertax “Roth” contributions. In addition, employer sponsored plans often offer matching contributions and may be your best option when it comes to saving for retirement.
- IRAs also feature tax-deferred growth of earnings. If you are eligible, traditional IRAs may enable you to lower your current taxable income through deductible contributions. Withdrawals, however, are taxable as ordinary income (except to the extent you’ve made nondeductible contributions).
- Roth IRAs don’t permit tax-deductible contributions but allow you to make completely tax-free withdrawals under certain conditions. With both types, you can typically choose from a wide range of investments to fund your IRA. Annuities are generally funded with after-tax dollars, but their earnings grow tax deferred (you pay tax on the portion of distributions that represents earnings). There is also no annual limit on contributions to an annuity.



THE 411 ON 401(K)

A 401(k) plan is an employer-sponsored retirement savings plan that offers significant tax benefits. You contribute to the plan via payroll deduction, which can make it easier for you to save for retirement. Perhaps the most important feature of a 401(k) plan is your ability to make pretax contributions to the plan. Pretax means that your contributions are deducted from your pay and transferred to the 401(k) plan before federal (and most state) income taxes are calculated. This reduces your current taxable income. You don’t pay income taxes on the amount you contribute--or any investment gains on your contributions--until you receive payments from the plan.

You may also be able make Roth contributions to your 401(k) plan. Roth 401(k) contributions are made on an after-tax basis, just like Roth IRA contributions. Unlike pretax contributions to a 401(k) plan, there’s no up-front tax benefit--your contributions are deducted from your pay and transferred to the plan after taxes are calculated. But a distribution from your Roth 401(k) account is entirely free from federal income tax if the distribution is qualified, as discussed below.

Many 401(k) plans let you direct the investment of your 401(k) plan account. Your employer will provide a menu of investment options (for example, a family of mutual funds), but it’s your responsibility to choose the investments most suitable for your retirement objectives.





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(1st St & Hudson Rd)
1710 1st St Ste A
(319) 268-1879

Waterloo

(Kimball & San Marnan)
1009 Peoples Sq
(319) 287-3961

Jesup

1310 6th St
(319) 827-1050

Raymond

300 South 3rd St
(319) 232-3070

Dunkerton

905 Jon Rd
(319) 822-2521

Gilbertville

1222 5th St
(319) 296-1410

OTHER ATM LOCATIONS:

Cedar Falls

Prime Mart - 2827 Center St
Tobacco & Liquor - 2328 College St
Prime Mart - 2323 Main St

Waterloo

Supervisors Club - 3265 DeWitt Rd
Omega Cabinets - 1205 Peters Dr
Court House - 316 E 5th
Prime Mart - 1008 LaPorte Rd
Prime Mart - 3535 Marigold Dr

Independence

Starlight Cinema - 2401 Swan Lake Blvd

FIND YOUR KEYS

R B X O N L I U T G T E T T
 I E T N G N I N N A L P D U
 N N T O A D O I E E X M E R
 L E M I A R V I M N M E N N
 O F E T R A D I T I O N A L
 H I O U S E E I S C C R E T
 T T F B D I M E E E U X X N
 E S O I F A T E V S E D P N
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 R S G N I T C E J O R P S V
 N S N O C S V T I I C I E D
 L A I C N A N I F M U N R I
 S G S T O A N T E N T T E L

KEY WORDS

- ASSETS
- BENEFITS
- CONTRIBUTION
- DEDUCTION
- EXPENSE
- FINANCIAL
- FUND
- INCOME
- INVESTMENT
- PLANNING
- PROJECTING
- RETIREMENT
- ROTH
- SAVING
- TAX
- TRADITIONAL

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