

notes of. interest

A semiannual newsletter for customers and friends of Dairy State Bank

Spring/Summer 2005

Health Savings Accounts

Dairy State Bank is pleased to be one of the area's first banks to offer Health Savings Accounts (HSA). An HSA is a **tax-exempt custodial account**, designed exclusively for paying or reimbursing qualified medical expenses incurred by you, as the account holder, and your family.

Tax Benefits

Health Savings Accounts offer excellent tax benefits. In fact, HSAs were signed into law specifically to help individuals save and pay for future qualified medical and retiree health expenses on a tax-free basis.

HSA contributions are tax-deductible in the year they occur, earnings are tax free and distributions are tax free if they are used to pay qualified medical expenses.

Eligibility Requirements

To open an HSA, you must meet these four eligibility requirements:

- You must be covered by a "high deductible health plan" (HDHP), carrying a deductible of at least \$1,000 for a single-only plan and \$2,000 for a family plan;
- You cannot have other health coverage that is not an HDHP (other than certain limited-purpose plans, such as dental or vision care, and others);
- You cannot be enrolled in Medicare;
- You cannot be claimed as a dependent on another person's tax return.

Annual Tax-Deductible Contribution Limits to a Health Savings Account		
	If your annual insurance deductible is:	You can make annual HSA contributions of up to:
Self-Only Coverage	\$1,000	\$1,000
	\$2,000	\$2,000
	\$2,500	\$2,500
	\$2,650+	\$2,650
Family Coverage	\$2,000	\$2,000
	\$2,500	\$2,500
	\$5,000	\$5,000
	\$5,250+	\$5,250

Annual Contribution Limits and Recordkeeping

For the 2005 tax year, you may contribute to your HSA up to these maximum annual limits: for self-only coverage, 100% of your annual deductible or \$2,650, whichever is less; and for family coverage, 100% of your annual deductible or \$5,250, whichever is less. (The chart at left gives various examples of these limits.)

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Thoughts On This and That



Michael Bock
President

Staff Changes

After 29 years of dedicated service, our teller supervisor, Bunny Fitzgerald, retired as of January 31. Bunny served in a number of capacities during her career at DSB, with her most recent role being teller supervisor in Rice Lake. We wish Bunny the very best in retirement as she looks forward to spending more time with her family and especially her grandchildren.

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Retiring teller supervisor Bunny Fitzgerald (right) with DSB's newly promoted teller supervisor Jessica Downey.

FDIC-Insured Retirement & Tax-Favored Products

Dairy State Bank offers a full range of FDIC-insured retirement or tax-favored products: Traditional and Roth IRAs, Coverdell Education Savings Accounts (ESAs), SEP plans and Health Savings Accounts (HSAs).

Act Before April 15th for More Choices

With April 15's tax filing deadline drawing closer, now is a good time to open or add to one or more of these accounts. Each has its own purpose, tax advantage, contribution limit and eligibility requirement.

For all accounts, contributions made before April 15th may be designated for either 2004 or 2005, giving you more tax-planning options.

Below are brief summaries of the IRAs, ESAs and SEPs. Refer to our cover story for information on HSAs. As with any important tax-related decisions, please consult with a tax or financial advisor first.

Traditional & Roth IRAs

A Traditional IRA (Individual Retirement Account) is for those who are seeking a deduction for their contributions on their current taxes, deferring taxes on both the contributions and the earnings until they are withdrawn at the age of 59-1/2 or older.

Contributions to a Roth IRA are not tax deductible in the year they are made, but withdrawals of both contributions and earnings at the age of 59-1/2 or older are tax-free.

For contributions designated for 2005, the limit on both of these IRAs is \$4,000. Contributions designated for 2004 are subject to a \$3000 limit.

Coverdell ESAs

A Coverdell Education Savings Account (formerly called Education IRAs and now known as ESAs) is a non-deductible account that features tax-free earnings when withdrawals are used to pay for a child's qualified elementary, secondary or college education expenses. The annual contribution limit is \$2,000 for eligible contributors* and can be made until the child reaches 18 years old.


If you use ESA proceeds for a non-qualified expense, the earnings portion is then subject to income taxes and a 10% penalty tax.

Employer-Sponsored SEPs

A SEP (simplified employee pension) is an employer-sponsored retirement plan whereby the employer sets up a SEP-IRA account for every eligible employee.

The SEP plan benefits the employer in that it is an easy retirement plan to operate, contributions are tax-deductible and the employer can choose whether to fund the plan from year to year.

SEP plans offer employees many benefits: the SEP-IRA builds on their retirement benefits; contribution limits are higher than other IRAs; and the employees own their SEP-IRA, enabling them to take it with them if they leave their job.

For more details on DSB's various tax-favored products, please contact your branch customer service representative. 

*This ESA contribution limit is based on the contributor meeting certain modified adjusted gross income (AGI) requirements and is phased out for those who exceed AGI requirements. Please check with your DSB customer service representative for these limits.

Are You Now Eligible?

We truly appreciate those of you who have been customers for many years, and we want you to receive the greatest banking value at Dairy State Bank.

If your situation has changed since you first opened your account(s) here, you may be eligible for other products that will serve you better.

Advantage Checking

Have you started to receive your payroll, government or benefit checks through direct deposit?

Advantage Checking is a great account for those who have direct deposit. Benefits include: an interest-bearing account with no minimum monthly balance required and no monthly service fee; unlimited check writing; and a VISA check card, upon credit approval.

A VISA check card allows you to use funds from your checking account without writing a check and to withdraw cash from most ATM machines.

Classic Club

Have you turned 55 years young?

Classic Club membership is open to any customers who have reached 55 years young and have either a checking, savings or certificate of deposit account with Dairy State Bank.

The checking account has no minimum monthly balance, no monthly maintenance fee, check imaging, free basic checks and a VISA check card, upon credit approval.

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Realizing the “American Dream”

The idea of owning a home — realizing the “American Dream” — has been around for a long time. But over the years, home prices and the financial challenges of buying one have continued to grow. At Dairy State Bank, we have continuously expanded our residential real estate mortgage products to help more customers reach their “American Dream,” and we’re happy to announce these latest additions for 2005:

Single Closing Home Construction Loan

Our newest home loan product is a single closing home construction loan. This product is designed to have a one-year construction period and then move into a fixed rate term loan. You’ll lock in the rate of your fixed rate term loan at the beginning of construction, instead of at the end, and avoid any upward rate fluctuations in between.

Expanded Mortgage Balloon Products

We’ve expanded our mortgage balloon products for those considering shorter-term home ownership. You may now choose balloon options ranging anywhere from 2 to 10 years.

Still A Good Time to Act

For those of you considering building, purchasing or refinancing a home in 2005,

current financing conditions remain good. While interest rates did increase in 2004 and there is talk of possible rising rates in 2005, home mortgage rates are still attractive; although, acting on your decision earlier in 2005 may be more favorable than later.

To learn more about any of DSB’s home mortgage products, please see one of our mortgage lenders: Todd Kobielush or Eric Thoreson in Rice Lake; Krista Paulus in Birchwood; or Sherrie Siebert in Prairie Farm.

They’re eager to find a home loan that will put you in your “American Dream!” ➤



Todd Kobielush



Understanding the Impact of a Credit Score



Eric Thoreson

What’s all the fuss about credit scores these days? A credit score is a number calculated by a credit bureau regarding your creditworthiness. It may be used by lenders in making a decision on a loan application, by employers considering an employment application or by merchants selling their products or services.

Electric utilities, home insurers and landlords often use credit scores in deciding how to price their services.

Credit scoring is basically a point system based on your credit history, which will help predict how likely you are to repay a loan or make payments on time. Your credit score is

influenced primarily by two things: how you pay your debts and how much debt you owe.

Factors that **will negatively affect your credit score** include:

- Late payments on loans
- A past bankruptcy
- Debts placed for collection
- A court judgment ordering you to pay money as a result of a lawsuit

Other factors that can affect your score include how long you’ve had credit, how often you’ve applied for new credit and whether you’ve increased your debt level.

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Retirement Strategies: Early Retirement

Despite these complicated economic times, several of my clients have chosen to pursue an early retirement strategy. Some have approached retirement on their own schedule, while others were prompted by an early retirement package from an employer or a buyout. If you find yourself contemplating such a move, I believe my experience and objective advice could serve you well.

Look Before You Leap

Before you make the leap, make sure you have the financial capacity to live the life you want. The biggest financial issue you'll face is outliving your assets. According to the U.S. Census Bureau, the number of people age 100 and over nearly doubled during the 1990s. That number is expected to grow, which means you should plan on living a long time in retirement.

I invite you to meet with me to discuss your options and to make sure you're covering all the retirement planning bases. Together, we'll assess your portfolio composition and develop a plan for tapping your resources — in the right order — while in retirement. I'll also help you take advantage of the benefits of estate and long-term care planning, as well as tax and charitable gift strategies.

With increasing uncertainty in today's financial markets, these are the times when you most need counsel and reassurance. I invite you to my office — at no cost or



Mike Martin
LPL Investment Representative

Located at:
Dairy State Bank
16 S. Main Street
Rice Lake, WI 54868



Securities and insurance products offered through Linsco/Private Ledger.

Member NASD/SIPC.
Not FDIC insured.
No bank guarantee.

May lose value.
Not a deposit.
Not insured by any Federal Government Agency.

obligation — to discuss the options available to you. Please feel free to contact me if you have any questions at 715-234-0096 or via my website at michaelg.martin@lpl.com.

This article is not intended to provide specific advice or recommendations for any individual. Consult me, your financial adviser, with questions.

Credit Scores (Continued from Page 3)

There are three major nationwide credit bureaus: Equifax, Experian and TransUnion. In most cases, each bureau has a credit report on you; therefore, you have three credit scores. All individuals receive their own score — married couples do not have a combined score — and it is based on credit history alone, not personal characteristics such as age or gender.

Scores generally range from 300-850. Scores in the low 600s and below represent the greatest credit risk, while scores above 700 are the most creditworthy.

You can improve your credit score by following these practices:

- Pay your bills consistently and on time
- Don't max-out your credit cards
- Pay off debt rather than moving it around
- Don't open many new accounts rapidly
- Check your credit report annually to make sure it is correct

The Fair and Accurate Credit Transactions Act (FACT Act) permits you to request a free annual credit report from the three major credit bureaus listed above. Residents of midwestern states, including Wisconsin, Minnesota and Illinois, are eligible to order their free reports as of March 1, 2005.

Reports can be requested online at www.annualcreditreport.com, by calling (877) 322-8228 or by mailing a standardized form to Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281. ➤



Thoughts (Continued from Front Page)

Please welcome Jessica Downey as our new teller supervisor. She has been with DSB over six years, serving both in the teller area and bookkeeping. Congratulations, Jessica, on your new position!

New & Expanded Products

Over the last couple of months, we have worked hard on **expanding our menu of home loan options**. We are now very excited to announce this expanded product line, designed to give more customers a mortgage product that will help them obtain their "American Dream."

Health savings accounts are now available at the bank. These accounts are a valuable tool for planning and paying for adequate health coverage. If you or your business are looking at this option, please look to DSB for your answers.

Elsewhere in this newsletter, you'll find more information on both our expanded home loan line and health savings accounts.

Finally, we constantly strive to make your banking experience the best it can be. If you have suggestions for improving your experience, please let me or your favorite DSB representative know.

Thank you for allowing Dairy State Bank the privilege to serve your banking needs. ▶

Now Eligible (Continued from Page 2)

The first 2005 Classic Club outing takes us to Rice Lake's Northern Star Theatre on Sunday, April 10, for a 2:00 matinee performance of the play "Harvey."

Contact Carolyn Anderson in the Rice Lake office to register.

Classic Club members enjoy a variety of bank-escorted social events and travel opportunities at discounted rates.

Our travel programs are designed specifically for members so you can relax and enjoy travel with friends and peers.

To open or switch your account to either of these added-benefit accounts, stop in any DSB office. ▶

Questions & Answers

Periodically, questions come to us on various topics. We appreciate the opportunity to answer your questions. Here are a few recently presented to the bank.

Is there a quick way to calculate the value of my CD at maturity?

A Yes. Go to DSB's Web site at www.dairystatebank.com. On the home page, click on the Calculator button and select Savings and Retirement from the drop-down menu.

Next, select the Value of Deposits calculator. In the field "I am going to save...", enter the dollar amount of the certificate. In the field "For a period of...", enter the CD's term. Also enter the interest rate and compounding frequency in the designated fields. Finally, click on "What will I end up with?". The response will be the value of your certificate at maturity.

I'm young and want to have fun. What's the big deal if I wait until my 30s to save for my retirement?

A To answer this question, numbers speak louder than words. Refer to the comparison chart below, which dramatically illustrates the difference between building your retirement fund from age 22-32 versus age 33-65. In this example, if you started earlier, you would contribute \$44,000 less and earn almost \$11,000 more — Wow! The power of compounding is a great incentive for starting early. In fact, think how much more your retirement fund would grow if you invested in it from 22 to 32 and then continued until you were 65 years old!

Does DSB offer any automatic loan payment options?

A You can set up your loan payments to be paid automatically by funds in your DSB checking, savings or money market account.

A simple authorization form sets this process in motion. Contact our loan department to arrange automatic payment.

If you have a question for us, please direct it to any Dairy State Bank office and we will be glad to respond. ▶

Building Your Retirement Fund — A Comparison Between Starting Earlier Versus Later

This chart assumes you make deposits of \$2000 per year during the years represented below and earn an average rate of 6.0%.

Age of Contribution	Total Years	Total Contributions	Approx Value at Age 66
22-32	11	\$22,000	\$217,000
33-65	33	\$66,000	\$206,400
Difference	(22)	(\$44,000)	+\$10,600

In this example, if you start earlier, it would take **\$44,000 less** in contribution dollars to **earn \$10,600 more!**

Inside: Tax-Saving Health Savings Accounts**New hours!****New Hours**
(Effective April 1, 2005)**New hours!**

Both our Rice Lake and Prairie Farm offices will have changes in their office hours as of April 1st, as noted below with a red asterick. For those of you who like to do your banking as you head into work, the Rice Lake drive-up will open 15 minutes earlier on Monday through Friday, as well as Saturday.

Rice Lake Office16 South Main Street
Rice Lake, WI 54868**Lobby Hours**

Monday —
Wednesday 8:30 am to 4:30 pm
Thursday &
Friday 8:30 am to 5:00 pm
Saturday 8:30 am to 12:00 noon

Drive-up Hours

Monday —
Wednesday 7:45 am to 5:30 pm *
Thursday 7:45 am to 5:30 pm *
Friday 7:45 am to 5:30 pm *
Saturday 7:45 am to 12:00 noon *

Birchwood Office124 North Main Street
Birchwood, WI 54817**Lobby & Drive-up Hours**

Monday —
Friday 8:30 am to 4:00 pm
Saturday 8:30 am to 12:00 noon

Haugen Office103 Third Street
Haugen, WI 54841**Lobby & Drive-up Hours**

Monday —
Friday 8:30 am to 4:00 pm
Saturday 8:30 am to 12:00 noon

Prairie Farm Office100 Hepburn Street East
Prairie Farm, WI 54762**Lobby Hours**

Monday —
Thursday 9:00 am to 3:30 pm *
Friday 9:00 am to 5:00 pm *

Drive-up Hours

Monday —
Thursday 8:30 am to 4:00 pm *
Friday 8:30 am to 6:00 pm *
Saturday 8:30 am to 12:00 noon

HSA (Continued from Front Page)

When you open an HSA at Dairy State Bank, it is set up as an interest-bearing checking account. You are then free to make deposits/contributions and write checks/payments for eligible medical expenses, at any time.

You may always contribute less than the annual limit and any contributions that are not used during the year remain in the account for payment of future medical expenses.

For purposes of filing your taxes, DSB will provide you with a Form 5498-SA, showing the total amount contributed to your HSA during the year, and a Form 1099-SA, showing the total amount distributed from your HSA.

Penalty for Ineligible Use of HSA Money

If you use HSA money to pay non-qualifying expenses, that amount must be added to your gross income in the year it was used and is subject to an additional 10% penalty tax.

To open or learn more about a Health Savings Account, please contact Robin Severson in our Rice Lake office.