Horizons 2020

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A QUARTERLY NEWSLETTER FOR HOMESTEAD FUNDS' SHAREHOLDERS

Family Ties

In our last newsletter, we talked all about financial wellness, what it means and how to attain it. But there's one persistent complication to being terrific with all things financial: Most people aren't solo operators. Financial decisions are often made not by one responsible family head but by the family unit. You can be as perfect as possible, but that doesn't guarantee your partner, spouse or children will follow suit.

In this issue, we take a look at family ties, financially. We consider what factors go into making people good savers and look at the steps you can take to help others get into good money habits, too. Our certified financial planners share stories about their own financial roots. We also uncover some interesting numbers about how money works in the typical American family.

It's a great victory to establish successful money habits and build the stability you need for yourself. But as soon as you've made progress on your own, it can be a gift to your loved ones to support their path to financial wellness by leading and educating on these topics. It's just one of many examples in family life where, after you put your own oxygen mask on, it's time to look around and see who else you can help. We hope that, in this issue, you find tips and insights that aid you in your efforts.

How to Make a Saver

Are savers born or made? Both, we could guess from knowing a little about human nature. We dug into the research to paint a picture of what goes into making a saver. What we found could help you figure out how to encourage good behaviors in yourself and your family.

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MONEY MENTORS: WHY THEY DO IT

Parents and grandparents have a few different motivations for teaching younger generations about money. Here's how they ranked:

- #1 Helping them **become independent**
- #2 Helping them **acquire financial values**
- #3 Helping them **learn financial skills**

Source: The University of Arizona, "Practice Makes Perfect: Experiential Learning as a Method for Financial Socialization"

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1: The Commonsense Basics

Let's start with the easy stuff: You probably know what kind of basic elements would make one person better with money than the next. A good understanding of financial concepts, for instance, is probably helpful. Some life experience with handling money could go a long way, and a good attitude about money could contribute to smart decisions.

Indeed, these commonsense basics are supported by the research. A 2015 study of more than 1,500 college students in Turkey looked at five such elements, from financial knowledge to supportive life experience, and found that all five factors were significantly associated with more saving.

FACTORS ASSOCIATED WITH SAVING

According to a 2015 study[1] of more than 1,500 students, these commonsense factors line up with better saving behavior:

MORE FINANCIAL KNOWLEDGE

Students with a **better financial literacy score** were **2 TIMES** more likely to save

Students who **took finance classes** were **1.7 TIMES** more likely to save

HELPFUL LIFE EXPERIENCE

Students with **previous paid work experience** were **1.7 TIMES** more likely to save

Students who received **direct money lessons from parents** were **1.8 TIMES** more likely to save

HEALTHY ATTITUDE

Students with **a positive attitude toward money** were **1.7 TIMES** more likely to save

KEY POINT: The basics are important. This should give you some confidence in helping family members acquire the attitudes, knowledge and experience that seem to help.

2: The Personality Effect

Another way to understand the profile of a saver is to look at personality and disposition.[2] Unsurprisingly, there's strong evidence that people with higher self-control are more likely to save regularly from their paychecks, even after accounting for things like financial literacy. In other words, if two people had the same level of financial literacy, the one with a higher self-control score is more likely to be a regular saver. Those with higher self-control are also less likely to feel anxiety about their finances.

Two other personality characteristics are also positively associated with saving: optimism and deliberative thinking. Optimistic people are more likely to make good financial choices while also worrying less about the future. Deliberative thinking, the process of planning for and analyzing the future, is also associated with good saving habits.

KEY POINT: Most of us have some awareness of our inclinations. Consider bringing up these ideas with family members to help them make the connection.

3: Your DNA

Finally, there is some interesting evidence that DNA factors into saving.[3] We may "inherit" attitudes and behaviors by watching and learning from parents — but it could also be that we have literally inherited our tendencies, to some degree.

In fact, researchers say that the nurture component — the money behavior that is modeled or taught to us — really only had an impact in the young adult years of life. On the other hand, the nature effect — our hardwired DNA — could account for as much as one-third of our tendencies.

WHERE "NURTURE" HAS THE MOST IMPACT

Research suggests that "nature," or our DNA programming, has a strong effect on financial choices. However, there were two notable cases where "nurture" especially mattered:

In young adult years
(below 35 or so)

In small families without many siblings
(i.e., where parents spend more one-on-one time with kids)

KEY POINT: Though financial tendencies are somewhat determined by DNA, the nurture effect still matters — especially for young adults.

A Mix of Factors

Ultimately, a wide range of factors go into making a saver. Still, you may have noticed that a number of the examples here reveal that knowledge, experience and attitude do matter. This is good news for the parents or grandparents looking to make an impact — but also for policymakers and educators who will need, increasingly, to make good savers out of the whole population.

[1] International Journal of Economics and Finance, "Factors Influencing College Students' Financial Behaviors in Turkey: Evidence from a National Survey"
[2] ScienceDirect, "Does self-control predict financial behavior and financial well-being?"
[3] Yale, "The Origins of Savings Behavior"

Our Planners Share Their Family Ties

Our team of certified financial planners (CFPs®) work with shareholders of our mutual funds. Our planners are salaried members of the team. Their help and guidance is available to our shareholders without any additional fees or charges.

RAYMOND:

Quarters With Grandma

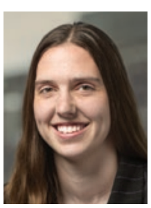
I grew up in a single-parent home with very humble means. I knew how tight money was, and I knew that was not something that I wanted for my future family. I took an interest in money when I was very young, and what I really remember is playing with piles of quarters with my grandmother.

As I got older, I took accounting classes in high school, and I started to watch the news and read the newspaper to educate myself on finances. I decided to open a bank account at 18. I used to walk to the bank to deposit my checks.

I consciously managed my student loan debt and started saving for retirement very early. I understood that buying things with a credit card had a bigger cost. These early decisions had a huge impact on my financial path.

WHY I WORK AT HOMESTEAD

I believe in educating individuals about the general principles of investing. I also believe that the work I am doing is truly helping people and that I can be an inspiration to people trying to improve their finances.



MEGAN:

Making Choices as a Parent

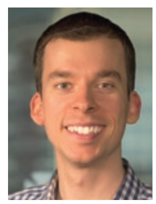
I grew up in a small town, and my family never had much money. I decided as a child that the best way for me to better my future finances would be to always learn and work hard. I became a single mother before I finished school, but that did not change my drive.

It was difficult to balance working full-time, caring for my children and going to school full-time, but I made a plan and followed through. I got several associate degrees and certificates that helped me get a higher-paying job at a local bank while I continued my college education.

I graduated two years later with my bachelor's degree in accounting, moved to the Washington, D.C. area and started working at Homestead Funds.

WHY I WORK AT HOMESTEAD

Homestead is different from other financial institutions. I'm not a salesperson and don't work on commissions. This gives me the ability to focus on each shareholder's interest instead of worrying about making a sale. I know what it's like to have competing financial goals. I know how important it is to have and stick with a plan, because small changes can pay off over time.



JOHN:

An Interest From Early On

As a kid, I loved to save. Growing up the youngest of four, my siblings used to borrow money from me and joke that I was the "Family Bank."

I understood the importance of saving, but I only learned later in life about investing outside of your bank account for retirement or other goals, like education or a wedding. I started listening to investing podcasts and reading financial planning blogs to learn more about how to put my money to work. I wanted to share this knowledge with my family and better prepare them for their investing goals.

My wife was the one who suggested I enroll in classes to pursue the CFP® certification. That decision ultimately led me to Homestead Funds. I'm lucky that I could turn this personal interest into a career where I get to help people every day.

WHY I WORK AT HOMESTEAD

I love being able to help shareholders with something that I personally am so interested in. It's important to start early, but a lot of people may not be early on their financial journey. It's really satisfying to help them take steps toward their financial goals.

3 Ways to Impart Good Money Habits

In the oldest days of human civilization, we would be helping children and grandchildren learn about hunting and gathering. A hundred years ago, we might be teaching them how to can and preserve foods. In the modern world, where money is usually the key to accessing resources, money management is a prime survival topic. Here are three different modes to help pass on good information and good habits.

1 Teach Them Well

Next time you're in the local bookstore, take a look at the "personal finance" section. Chances are you'll see rows and rows of finance books — for good reason. People clearly seek out and want good information about how to deal with money.

That's not to say all those books are full of valid info; there's plenty of nonsense out there, too. But it reinforces the point: One of the greatest gifts you can give to family members is to share the real-world wisdom that you've learned about money over the years.

2 Leading by Example — at Dinner!

The idea of leading by example might seem a bit too distant to transmit good money choices to others. After all, your kids or grandkids probably aren't witness to an automated account deposit or a timely credit card payment.

However, that might not be the example that matters. Instead, it may be that others are learning from your example of self-regulation.

Self-regulation means managing your emotions, behaviors and actions to accomplish a long-term goal — i.e., a form of self-control, one of those personality factors that was found to help financial choices. Psychologists actually use family dinners as a good example of self-regulation.[1] Family dinners demonstrate to children that their parents make and keep a commitment to family time.

3 Put Them in the Driver's Seat

Many families let children try out money for themselves.[2] In education-speak, this is referred to as "experiential learning." From helping them open their own accounts to using allowance, the practice of putting kids in the driver's seat (while also keeping a close eye on things) is just now being studied more formally by policymakers and researchers. They're trying to catch up to what parents and grandparents have always known: Letting children do things for themselves is incredibly effective. ✸

HELP ME DO IT MYSELF!

Ninety percent of families reported using some form of experiential learning, like having children save or open bank accounts, giving them an allowance, involving them in investing, using credit cards and having them find work experience.

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[1] Munich Personal RePEc Archive, "Individual wealth accumulation: Why does dining together as a family matter?"

[2] The University of Arizona, "Practice Makes Perfect: Experiential Learning as a Method for Financial Socialization"

HELPING FAMILY SAVE AND INVEST

CONTRIBUTE TO THEIR SAVINGS. If you are in a position to give to kids or grandkids, a dedicated account for a minor could be right for you.

HELP THEM GET STARTED. Help family members open an account for their own goals.

DO IT TOGETHER. Involve family members in managing an investment account. Choose investments and review statements together to help them gain the knowledge to be successful.

Education Savings Account

Anyone can contribute to these accounts, which can be used toward elementary and secondary school expenses as well as college.

UGMA/UTMA

Uniform Gift/Transfer to Minor Accounts (UGMA/UTMAs) are another way to save for minors, with the added benefit that they don't limit per-year contributions.

Spousal IRA

These accounts could offer a tax-advantaged way to save for retirement by allowing a working spouse to contribute on behalf of a nonworking spouse.

*Learn more about account types at **www.homesteadfunds.com/account-fund-types/#account-4**.*

Family Money by the Numbers

Every family is different, but there are definitely patterns in the ways that American families handle money. See if you can relate to these common scenarios.

Which spouse usually handles “the money stuff”?

A: Whoever makes more money!

In couples, who is more likely to handle bill paying and saving/investing decisions? In surveys, it appears that the spouse or partner who makes more income is likely to be the appointed family finance person.[1]

Of course, there are exceptions. In cases where couples have very low income or low financial literacy, a woman partner is not likely to be in charge of money decisions even when she makes more. In these cases, it seems, traditional roles prevail.

How many adult children give financial help to aging parents?

A: About a fifth of Americans with a living parent age 65 or older

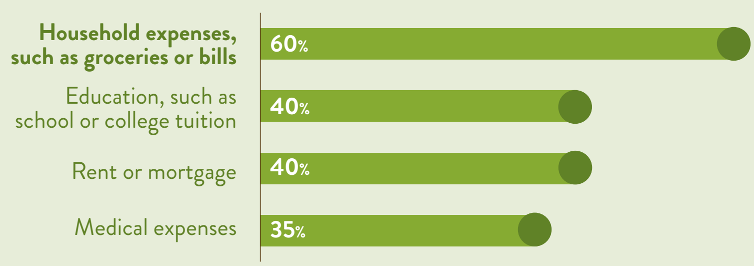
Twenty-one percent of Americans between the ages of 40 and 59 report that they provided some financial assistance to elderly parents in the past year.[3] This number seems to be relatively unchanged from earlier surveys; however, the tendency for parents to support adult children seems to be ticking upward, suggesting that more middle-aged Americans are caught in the tough position of supporting both older and younger family members.

How many parents give financial help to young adult children?

A: 59%

Over half of parents are still helping adult children.[2] But this isn’t just parents helping with education: The biggest share reported helping with “household expenses.”

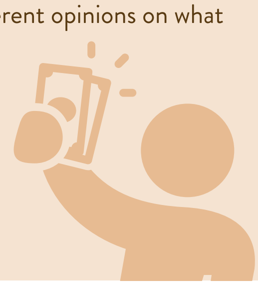
*Among **adults ages 18 to 29** saying that, in the past 12 months, they received at least some financial help from a parent, % saying some of the help was related to...*



Do most kids still get an allowance?[4]

A: Yes!

Researchers love to survey people about allowance, so there are plenty of examples of recent surveys on the topic. While the numbers vary, it’s clear that the majority of parents do give an allowance, with about 67% of families giving regular spending money to kids. What is less clear is the amount and what kids have to do to earn it. Here, families have different opinions on what helps their children develop good habits and what doesn't.



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[1] America Economic Association, “Who Manages Household Finances in Married and Cohabiting Couples? The Role of Relative Income and Gender”
[2] Pew Research Center, “Majority of Americans Say Parents Are Doing Too Much for Their Young Adult Children”
[3] Pew Research Center, “The Sandwich Generation”
[4] Inquirer, “Not all parents give an allowance, but those who do average $30 a week”

News Briefs

IRAs: A Flexible Tool for Life's Goals

IRAs aren't just for retirement. Make sure you aren't overlooking some strategies and potential tax benefits. Here are a few commonly overlooked facts about IRAs:

- **IRAs are available to nonworking spouses:** A "spousal IRA" allows a nonworking spouse to have a Traditional IRA without having earned income. The working spouse contributes to the IRA, and the money can benefit your spouse or enhance the overall savings of a married couple.
- **IRAs can be established on behalf of minors with earned income:** To qualify, the child's money must come from "earned income" — income from babysitting and mowing lawns, for example, but not an allowance. You must be able to document where the money came from; a tax advisor can help you sort out the rules if need be.

The deadline for making IRA contributions for the 2019 tax year is April 15, 2020. **www.homesteadfunds.com/iras-a-flexible-tool-for-lifes-goals/**

Save as a Family!

The best way to teach money habits to the young people in your life is to model great money habits. While many of us have learned the importance of making sound financial decisions, budgeting, saving and other financial planning topics aren't always taught at a young age. In honor of America Saves Week, we encouraged you to take the 52-Week Challenge. Give it a shot and save as a family! **www.homesteadfunds.com/wp-content/uploads/52-week-challenge.pdf**

What the SECURE Act Could Mean for You

The Setting Every Community Up for Retirement Enhancement Act (SECURE Act), which was signed into law on December 20, 2019, aims to help improve retirement savings for many Americans. Highlights of the SECURE Act include:

- The age for required minimum distributions has increased from 70½ to 72 for individuals who turn 70½ in calendar year 2020 or after.
- As long as you continue to work, you can make IRA contributions beyond 70½.

With increasing life expectancies, many people are working longer. The new changes make it easier for workers to save money for retirement and for retirees who don't need to use their IRA assets now to keep money invested a little longer.

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