Horizons 2021

1Q

00258594

A QUARTERLY NEWSLETTER FOR HOMESTEAD FUNDS' SHAREHOLDERS

Retirement Reset

Spring is always a season of renewal, and this year, that's especially applicable. With the global pandemic finally beginning to ease, day-to-day life is looking a bit more normal.

Yet, the challenging time that we have been through has left its mark on all of us. For instance, there was a spike in retirements by baby boomers in 2020 as the labor market reeled from shutdowns and changes in the economy.[1] At the same time, many Americans had to tap into retirement funds early to get through the pandemic. Provisions in the March 2020 CARES Act made it easier to take withdrawals or loans from retirement accounts.

Retirement savings aren't the only issue of concern. Credit card debt has declined since its pre-pandemic peak, but overall consumer debts — including credit cards, auto loans, student loans and other non-mortgage debts — rose overall through 2020.[2] As unemployment levels remain high in the U.S., the financial stability of American households is under pressure. Savings are crucially important.

In this issue, we take a closer look at retirement in particular. Whether you need a full-blown retirement reset or just some smart tips to guide your decisions, read on for insights from our team.

[1] Pew Research, "The pace of Boomer retirements has accelerated in the past year"

[2] Federal Reserve Bank of New York, "Quarterly Report on Household Debt and Credit"

Retirement Saving in a Pandemic

Among the many challenges that Americans face in the pandemic, one is keeping retirement savings on track. In the early months of the pandemic, there were signs that nearly a quarter of workers had decreased or stopped contributions to their retirement accounts.[1] While the picture brightened significantly over the course of the year, there is still some damage control to be done.

Continued on page 2

IT'S IRA SEASON!

April 15 2021	Deadline for 2020 contributions
$6,000	Annual contribution limit for 2020 and 2021
$7,000	Limit for age 50 and up

STILL GETTING PAPER STATEMENTS?

If you'd prefer to receive your account statements electronically, just visit us at **homesteadfunds.com** and log in to your account to update your preferences.

Worrisome Trends Gave Way to Normalcy

As the first surge of COVID-19 hit in spring 2020, there were red flags that retirement accounts were poised to face a downturn of their own. With unemployment peaking at 14.8%, the outlook was troubling.[2]

However, the worst-case scenario did not materialize. As 2020 wore on, the retirement savings situation clearly improved. In fact, when some of the biggest retirement-plan providers reported on participant behavior, the news was downright encouraging. By and large, retirement savers were behaving pretty much like in other years. Some increased contributions, a few dropped out, and the overall participation level was steady — in other words, an almost normal year.[3]

Withdrawals Under CARES Act

The caveat to the "normal year" pattern is the number of workers who took early withdrawals.

When Congress passed the CARES Act in March 2020, it included several provisions to make it easier for Americans to take early withdrawals or loans from their workplace retirement accounts. As of late fall, some of the market's largest plan providers reported that about 5% to 7% of participants had used the CARES Act provisions to take an early withdrawal.[4]

AFTER EARLY WITHDRAWAL, 3 YEARS TO REPAY[5]

For the 5% to 7% of Americans who took an emergency CARES Act withdrawal from their retirement funds, here's the fine print:

- **No 10% penalty:** The normal penalty for withdrawing before age 59½ was waived
- **Withdrawals taxed:** Emergency withdrawals are taxed at ordinary income rates
- **Three years to spread out taxes:** The taxable income can be spaced out on tax returns over three years
- **Three-year repayment window:** If workers repay the early withdrawal to their account within three years, they can get a refund on income taxes paid (but must submit amended tax returns)

The Problem With 'Normal'

Though savers seem to be back in typical patterns, that doesn't solve the persistent gap that existed in retirement savings pre-pandemic. The fact remains that a quarter of non-retired Americans have not saved anything for retirement.[6] And even before the pandemic, the majority of working Americans — more than six in 10 — felt that their retirement savings were not on track. With unemployment still elevated, it's likely to be a challenging period to make up for lost ground.[6]

A PERSISTENT SAVINGS GAP[6]

Retirement savings and self-assessed preparedness by age (among non-retirees)

Age	Any retirement savings	Retirement savings on track
18–29	62%	29%
30–44	73	35
45–59	83	44
60+	88	51
Overall	**74%**	**37%**

A Season to Rebuild

As the pandemic eases, it's a critical time to revisit your own retirement plan. If you took a CARES Act withdrawal, consider a plan to repay the balance within three years so you can get a refund on the taxes you're paying. Perhaps more important, those restored savings will be back at work for you, earning investment returns with the benefit of time.

Read on in this issue for other useful tips on how to bolster your savings with IRAs. ✱

HOW'S YOUR EMERGENCY SAVINGS FUND?

With a rainy day fund standing ready, you're less likely to dip into crucial retirement balances prematurely. Make a plan to establish or rebuild your emergency savings fund this year.

[1] Finance Buzz, "COVID-19 Derails Retirement Contributions: 27% of Americans Have Decreased or Stopped Saving"

[2] Congressional Research Service, "Unemployment Rates During the COVID-19 Pandemic: In Brief"

[3] Vanguard, "COVID-19, the CARES Act, and plan participants' response"

[4] CNBC, "Few workers take advantage of Covid-19 rules for 401(k) plan withdrawals"

[5] IRS, "Coronavirus-related relief for retirement plans and IRAs questions and answers"

[6] Federal Reserve, "Report on the Economic Well-Being of U.S. Households in 2019, Featuring Supplemental Data from April 2020"

Puzzle Pieces: How to Manage Distributions

Congratulations on your retirement! If you're in the distribution phase of your retirement journey, you are undoubtedly facing the same riddle as your peers: How and from which account do you take distributions?

The answer is: It depends on your situation. Fortunately, the considerations aren't as complicated as you might fear. You'll want to aim for penalty-free withdrawals while minding tax issues and making smart investment sales. Here's the checklist to help you make withdrawal decisions.

401(k) or Similar Workplace Account	Traditional IRA	Roth IRA	Taxable Investment Account

WILL IT BE PENALIZED?

First and foremost, you don't want to make any withdrawals that will trigger a 10% penalty, if you can help it. If you're 59½ or older, you can take from a Traditional IRA without worry — even if you're still working. You can take from a workplace plan starting at age 55 without penalty, but you must no longer be working for your employer. If you're at least 59½ but your Roth IRA is less than five years old, you'll have to pay ordinary income taxes on any investment earnings you withdraw (but contributions can be taken out penalty- and tax-free).

401(k) or Similar Workplace Account	Traditional IRA	Roth IRA	Taxable Investment Account
10% penalty for withdrawals before age 59½ (age 55 if no longer working)	10% penalty for withdrawals before 59½	Contributions can be withdrawn penalty-free anytime Investment earnings face 10% penalty for withdrawal before 59½	No penalties

DO I HAVE REQUIRED MINIMUM DISTRIBUTIONS (RMDs) TO TAKE?

Next you'll want to factor in your RMDs. In the year you turn 72, you need to begin taking RMDs from workplace accounts and traditional IRAs. The amount of your RMD is calculated by the IRS based on your age and life expectancy. (RMDs were waived in 2020 under the CARES Act to provide some additional financial flexibility during the pandemic.)

401(k) or Similar Workplace Account	Traditional IRA	Roth IRA	Taxable Investment Account
Required after 72 (exceptions may apply)	Required after 72	No RMDs	No RMDs

WILL IT BE TAXED?

With taxes, your aim is to let things grow tax-free — in 401(k)s or IRAs — as long as you can. It's also useful to try to make untaxed withdrawals in years where your ordinary income tax rate is higher, if your household still has lots of income from other sources and you're in a higher tax bracket.

401(k) or Similar Workplace Account	Traditional IRA	Roth IRA	Taxable Investment Account
Withdrawals are taxed at ordinary income rates	Withdrawals are taxed at ordinary income rates	No taxes on qualified withdrawals	You'll pay capital gains taxes on any realized short-term or long-term gains

WHICH INVESTMENTS SHOULD I SELL?

Investment sales will change your overall investment allocation. For instance, if you sell off all your bond holdings first, you may inadvertently tweak your allocation to a high-risk, all-stock portfolio. Conversely, if you sell all the stocks first, your investments will trend too conservative.

As you age, the general advice is to lean toward a more conservative portfolio over time — more bonds, fewer stocks. That translates to selling a bigger share of stocks and a smaller share of bonds in retirement years, inching your accounts toward a more conservative position.

We are happy to speak with you to offer personal guidance anytime.
Give us a call at **800.258.3030, option 2.**

5 Things to Know About IRAs

IRAs are a wonderful tool for long-term saving. They offer tax benefits, which allow your savings to grow more over time compared with a regular taxable brokerage account. They're also quite flexible. Here are five things to know as you consider how an IRA could help your savings work even harder.

1 The rules depend on the type.

You can only capture the benefits of IRAs if you follow their contribution and withdrawal rules. Here are the three main types:

TRADITIONAL. Qualified contributions to a traditional IRA lower your taxable income in that year. Investments compound tax-free, but you do pay taxes at withdrawal.

ROTH. In a Roth IRA, you use after-tax contribution dollars, meaning there's no tax benefit in the year of contribution. However, investments grow tax-free and qualified withdrawals are tax-free.

SIMPLIFIED EMPLOYEE PENSION (SEP). For the self-employed, a SEP IRA is meant to take the place of a workplace retirement plan. The annual contribution limits can be much higher than other IRAs, depending on your income situation.

2 Are you eligible? Depends on income and whether you have a retirement plan through work.

Age limits for IRA contributions were phased out in 2020. To contribute to **traditional IRAs**, you need earned income in the year of contribution. If you also have a retirement plan available through work, here are the income limits that qualify your contributions for the tax deduction:

SINGLE –
2021 modified adjusted gross income (MAGI) limit of **$66,000**, with contribution phasing out up to **$76,000**
(2020 limit: $65,000 to $75,000)

MARRIED FILING JOINTLY –
2021 MAGI limit: **$105,000** to **$125,000**
(2020 limit: $104,000 to $124,000)

For **Roth IRAs**, eligibility is only about income, regardless of whether you have a plan at work:

SINGLE –
2021 MAGI limit of **$125,000**, with contribution phasing out up to **$140,000**
(2020 limit: $124,000 to $139,000)

MARRIED FILING JOINTLY –
2021 MAGI limit: **$198,000** to **$208,000**
(2020 limit: $196,000 to $206,000)

3 Spousal IRAs are a great tool for one-income families to save more.

A two-income family may have access to two retirement plans and two sets of IRAs. Here's good news for one-income families: You can set up an IRA (traditional or Roth) for the non-earning spouse and contribute for him or her too.

4 A Roth IRA is not taxed when inherited.

Traditional IRAs are designed to be used up in your lifetime. They have required minimum distributions (RMDs) starting at age 72, and beneficiaries will be taxed on distributions when they inherit the IRA. For spousal beneficiaries, RMDs must begin when they turn 72, while non-spouse beneficiaries must fully deplete the account in 10 years.

In contrast, Roth IRAs do not have RMDs, and beneficiaries are not taxed on distributions when they inherit the account. Spousal beneficiaries can inherit Roth IRAs without RMDs, while non-spouse beneficiaries must fully deplete the account in 10 years.

5 You can use an IRA for things besides retirement.

With Roth IRAs, you don't have to wait for retirement: You can withdraw your contribution amount (but not the investment earnings) anytime, penalty-free and tax-free.

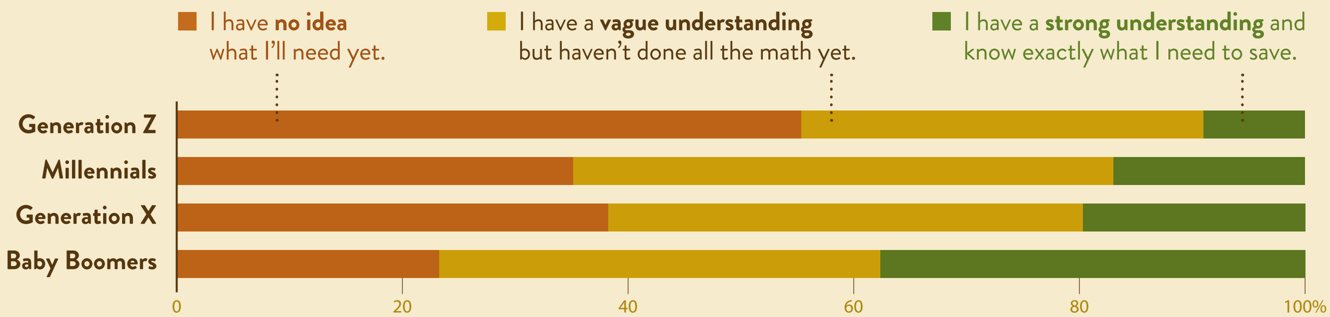
Traditional IRAs also allow for early withdrawals for qualified higher education expenses, health insurance premiums that you pay while unemployed or a first-time home purchase. Consult a tax advisor for other exceptions to the early withdrawal penalty.

Workplace retirement plans are the single most effective tool for building a retirement nest egg, but IRAs can be a powerful supplement. Homestead Funds offers all of the IRA account types discussed here: **Traditional, Roth, SEP** and **Spousal**. ✱

What's the Magic Number?[1]

Very few people know exactly how much they need to save for retirement. We did some calculations to give investors a better understanding of the target.

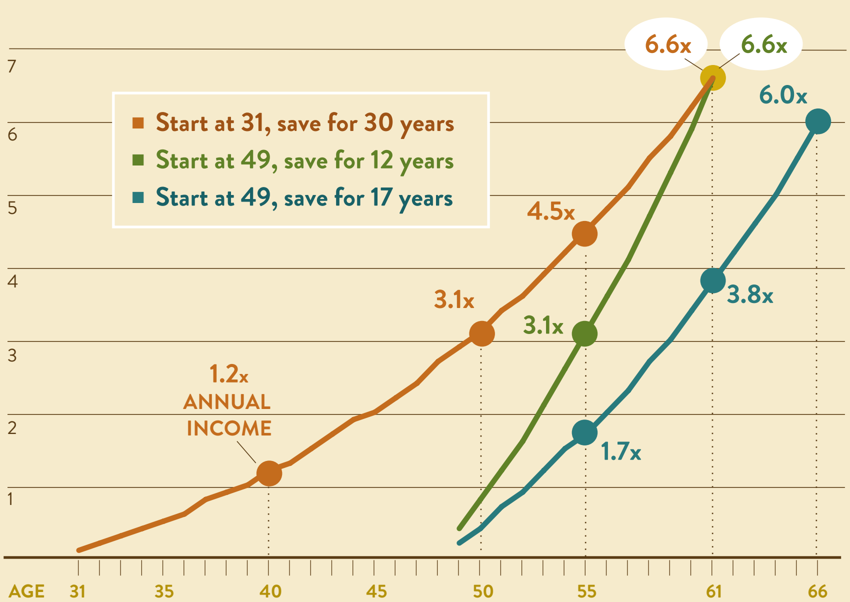
DO YOU KNOW HOW MUCH MONEY YOU'LL NEED TO SAVE TO RETIRE AT YOUR TARGET AGE?



A FEW ISSUES BACK, WE WORKED OUT THE MATH FOR A 'TYPICAL' AMERICAN — making the national average income, retiring at the average age, receiving average Social Security, etc. **We found that the fictional typical retiree needed about 6 or 7 times his or her annual income at retirement.** We also worked our way backward to find the milestones by age and what percentage of income the typical American would have to save.

RETIREMENT MILESTONES

The Multiple of Annual Income to Have Saved by Each Age



➤ Start at 31, save for 30 years: **10% of income per year**
➤ Start at 49, save for 12 years: **38% of income per year**
➤ Start at 49, save for 17 years: **21% of income per year**

HOW DID WE GET TO SEVEN?

Here's what we assumed:

Life expectancy: 82 years

Target replacement rate:
85% of pre-retirement income, with a combination of Social Security benefits and drawing from your nest egg

Annual income while working:
$66,280 in current dollars[1]

Social Security benefits:
$1,508 per month in current dollars[2]

Annual inflation: 2.0%
(used to grow each year's annual income and projected Social Security benefits)

Investment return: 7%
(a reasonable annual average for a stock/bond portfolio over a very long time period)

Average retirement age: 61[3]

[1] Seeking Alpha, "Median Household Income In December 2020"

[2] Social Security Administration, "Benefits Paid By Type Of Beneficiary"

[3] U.S. News, "The Ideal Retirement Age, and Why You Won't Retire by Then"

[1] Finance Buzz, "COVID-19 Derails Retirement Contributions: 27% of Americans Have Decreased or Stopped Saving"

News Briefs

Don't Forget: You Can Open an IRA Online

Inspired by "5 Things to Know About IRAs" on page 4? If you meet the eligibility guidelines, why not get started today? Go to homesteadfunds.com and select "Open an Account" in the top right corner.

America Saves (Every) Week

Retirement usually makes the list of individuals' top financial priorities, but recent surveys conducted in 2020 show a growing emphasis on building an emergency fund. Having money set aside to cover your family's expenses in case of a sudden job loss or other unplanned event is something financial planners have long encouraged. The pandemic was a wake-up call for many Americans who now seem to be shoring up their balance sheets by accumulating savings and paying down debt.

Growing your net worth through savings and investments is a year-round endeavor. Homestead Funds helps make it easy with automatic purchase plans, where you can invest even small amounts incrementally. Give us a call or go online to get started.

Speaking of Retirement: Well Done, Marc!

We congratulate money market portfolio manager Marc Johnston on his upcoming retirement. Marc has been with RE Advisers, the investment advisor to the Homestead Funds, since 2013 and prior to that worked as a financial planner for our parent organization, NRECA, for more than 11 years. With Marc almost ready to enjoy his next new adventure, we asked him to share his own personal top tips for reaching this special milestone.

1. **Take full advantage of your retirement plans at work!** The benefits of pre-tax deferrals and matching provisions growing tax-deferred over a long period of time can really add up. Regularly investing through payroll deductions can help ease the volatility of your returns over the long haul.

2. **Start saving for your future as soon as you can.** For young people, time is one of the most important assets.

3. **Be patient:** It's not easy to watch the market fluctuate, but by building a diversified portfolio and staying the course during volatility, you could create a better chance of achieving your long-term financial goals.

4. **Your asset allocation (the percentage you direct to stocks, bonds and cash) is an important variable in your portfolio's success over the long term.** Monitor and occasionally readjust it to maintain the risk profile that suits you and your needs.

Homestead Funds

NRECA America's Electric Cooperatives