

Horizons 2023

A QUARTERLY NEWSLETTER FOR HOMESTEAD FUNDS' CLIENTS

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Avoiding Financial Planning Pitfalls

There are as many ways to approach investing as there are investors — but one smart approach is to purposely aim to avoid the pitfalls.

Everyone makes money mistakes in their lives. When you look at how today's retirement-age population feels about their financial choices, they gravitate toward a common regret: They wish they had started investing sooner. Nearly half of baby boomers said that was their biggest financial regret, looking back on their lives.

As we pondered this, we also reflected on the other common mistakes and missteps we see among investors. They put off simple administrative tasks that would

make a world of difference for their finances. They overlook investment expenses, not realizing the real toll that fees can take on the long-term outcome of investments. And they struggle with deciding how to handle their workplace retirement plans once they do retire.

Importantly, these are not just issues related to retirement saving. A really smart approach to investing is one that considers the family's money holistically, looking for ways to put these insights to work for other financial goals beyond retirement. Read on for our most actionable tips for avoiding investment pitfalls now and in the years to come. ■

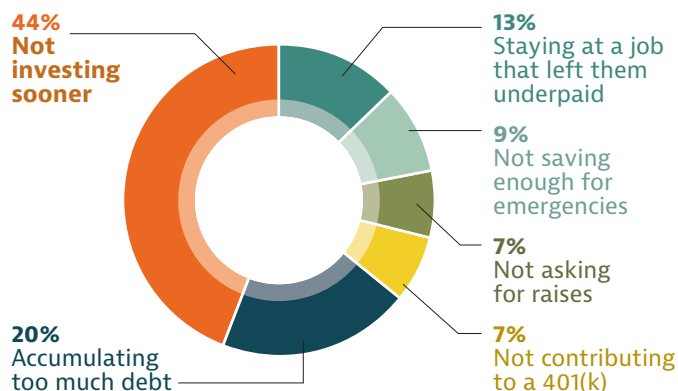


The Race to Invest

Forty-four percent of retirement-age Americans share the same financial regret: not investing sooner. But is the message being received by younger workers who have the time to act? Maybe not. Among those aged 18 to 34, half are not saving for retirement at all.¹ Those who do save often wait until their 30s, 40s or even 50s to get started.

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BABY BOOMERS' BIGGEST FINANCIAL REGRETS



Source: Annuity.org's Money Mistakes Survey 2021

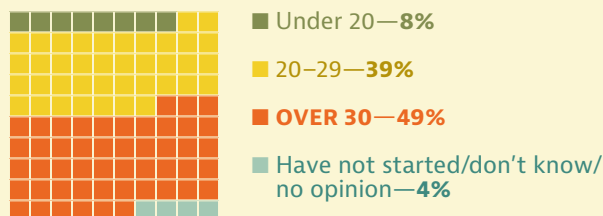


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One survey from the CFP Board found that about half of retirement savers began saving in their 30s or later; 8% didn't begin until their 50s or 60s.

HALF OF RETIREMENT SAVERS BEGIN IN 30s OR LATER



Source: CFP Board Retirement Presentation

And what about saving for other things besides retirement — an emergency fund, education, travel, a home purchase or other goals? Judging by the median savings-account balance, younger Americans are struggling there too. According to consumer data from the Federal Reserve Bank, those under 35 have accumulated about \$11,000 on average, only about a fifth of what their parents' generation has in savings accounts.²

Meanwhile, the majority of Americans do not have any investments outside of their retirement accounts and savings accounts. Pew Research found that only about a third of U.S. households have other stock, bond or mutual fund holdings — skewed heavily toward families with higher income.³

Time is a turbocharger for investments

In investing, time either works for you or against you. Starting early can give savers a hearty boost, and starting late can pose a stiff headwind. For instance, consider savers who want to stash away \$1 million by age 65. For our calculations, we assume each has access to investments that earn about 6% per year, which is a reasonable long-term average for a mix of stocks and bonds.

The saver who starts at 25 has a 40-year timeline to keep investments growing — and time will do most of the work for her. She could save \$6,500 a year, about \$260,000 total, and her investment earnings in this example would boost her to the \$1 million finish line.

On the other hand, a saver who starts at 45 has half as much time to get to \$1 million — and she has to save more than twice as much in dollars, about \$540,000. Her investments only have time to earn about \$460,000. And even worse, because she has to save twice as many dollars in half the time, she will need to save over \$27,000 per year to get there.

The inflation irritation

Many young workers struggle to save in any era. They're typically at the bottom rung of the pay scale while managing the cost of living and maybe even student loans.

High inflation in the last year has only complicated matters. With a significant jump in the prices for housing, food and gas, paychecks have had to stretch even farther. Thirty-one percent of Americans said they "don't know how to keep up with inflation," according to a 2022 survey by Fidelity. Fortunately, inflation has lately been on a downward trend, but it could prove to be a longer-term problem than policymakers would like.⁴

Starting soon, even if it's starting small

Each generation has wisdom to share with those who follow — and baby boomers seem to be telling the next gen to start investing as soon as possible. Every baby step into investing as a young adult is like a giant leap for an older adult. Today's youngest workers would be wise to start as soon as possible. ■

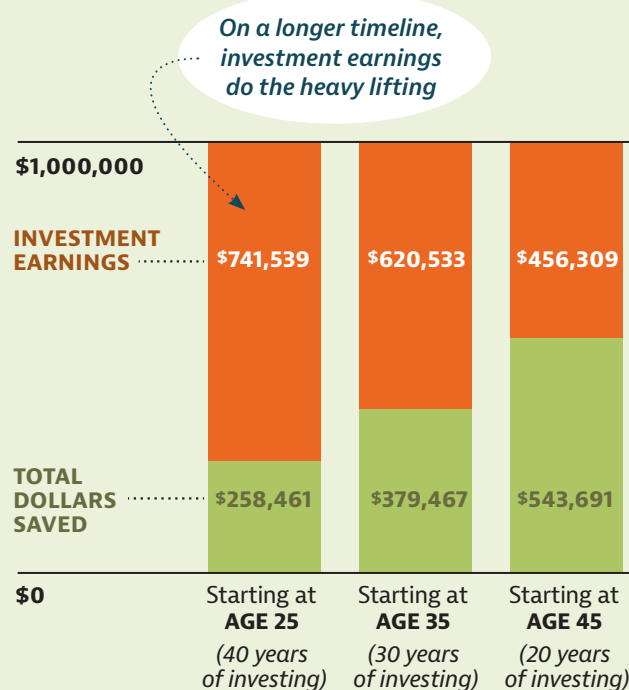
¹ CFP Board Retirement Presentation

² Federal Reserve, Survey of Consumer Finances

³ Pew Research Center

⁴ Fidelity, 2022 State of Retirement Planning

SAVING A MILLION BY AGE 65



Source: Homestead Funds' calculations. Calculations assume investment returns of 6% per year and an unchanging dollar contribution each year.

Investment Costs: An Invisible Toll on Returns

An unnoticed fee is always a nuisance — but for investments, fees can drag down long-term returns more than investors realize. In that respect, high fees and expenses can be a pitfall for investors.

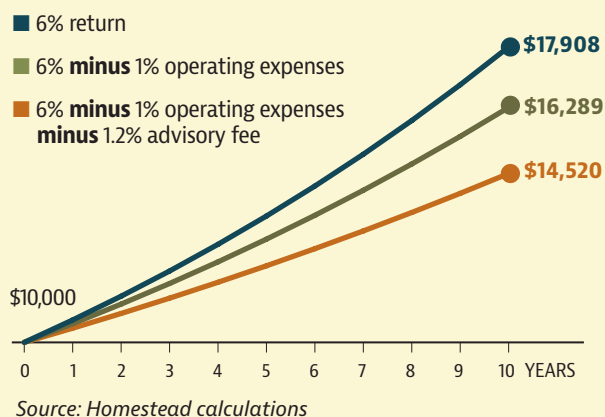
Many people find the fees and expenses of the investing world confusing and opaque. Investors may be unaware of the fees they are paying, or wonder if the fees are fair and competitive, or struggle to understand how the fees impact their investment outcomes over time.

Just as returns compound positively, fees compound negatively

The power of compounding is usually a good thing for investing. Compounding means that each year builds on the prior year: You earn new interest from last year's interest, and you earn returns on last year's returns.

Unfortunately, fees also have a compounding effect because they take a bite out of those returns each year.

FEES ARE A DRAG ON RETURNS



Understanding fee types in investments

It's no wonder investment fees are confusing to people, because they can take several forms. Expenses generally fall into three buckets: operating expenses, commissions/loads and advisory fees. Want to learn more about fees at Homestead Funds? Visit the fund pages of homesteadfunds.com to see how our expense ratios compare with those of our industry peers. ■

OPERATING EXPENSE RATIO (OER)

COMMISSIONS AND SALES LOADS

ADVISORY FEES

Who pays these?

Nearly all mutual funds and ETFs (exchange-traded funds) charge an operating fee, expressed as a percentage of the fund's value, deducted from the fund.

It depends on how you buy and sell investments. If you have a broker who makes trades for you, he or she probably charges a commission. Online platforms may charge commissions for buying and selling shares of stocks, bonds and funds.

When you hire a dedicated financial advisor, you usually pay for that advice through an advisory fee, typically a percentage of your account balance, charged annually.

What's the average rate?

The average expense ratio of actively managed equity mutual funds is 0.68 percent and the average expense ratio of actively managed bond mutual funds is 0.46 percent, based on 2021 data. For passively managed ETFs or funds, the OER is typically lower.

Full-service broker commissions can be 1%–2% of the transaction value. Discount or online brokerages can charge a low percentage or a flat fee such as \$5 per trade. Front-end loads paid to a broker or advisor are typically 5%–6% of the money to be invested, charged just once at purchase.

The industry average is around 1% of your account value per year, though it may start higher for investors who have smaller account balances.

Do I pay this as a Homestead Funds investor?

Yes, the mutual funds offered by Homestead Funds do charge operating expenses.

No, not for buying and selling shares of Homestead Funds that are held in your Homestead account.

No, Homestead Funds investors do not pay an advisory fee for their accounts.

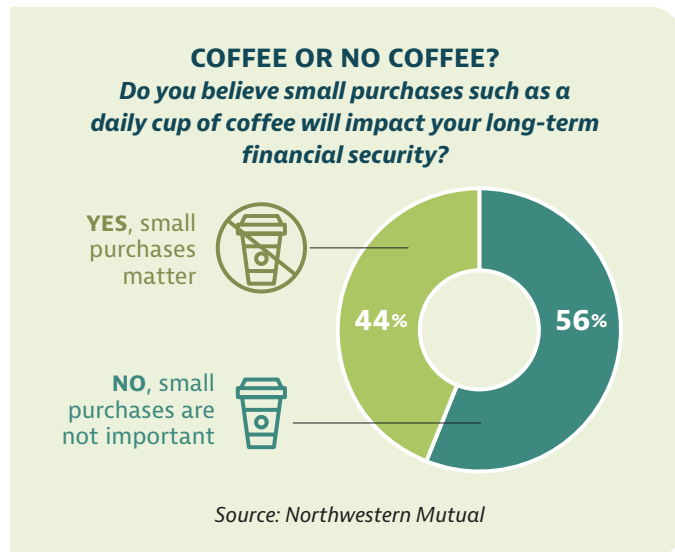
Sources: Investment Company Institute (OER); Kiplinger (commissions); NerdWallet (advisory fees)

All advisory services are provided by Homestead Advisers Corp., a wholly owned subsidiary of Homestead Financial Services Corp. and a registered investment advisor.

Active portfolio management can subject longer term investors to potentially higher fees and can have a negative effect on the long-term performance due to the transaction costs of the short-term trading. In addition, there may be potential tax consequences. Active portfolio management may be unsuitable for some investors depending on their specific investment objectives and financial position. Active portfolio management does not guarantee a profit or protect against a loss in a declining market.

5 Tasks You Don't Want to Do — But Are Crucial to Your Financial Well-Being

Does that daily coffee purchase matter to your financial future? People are quite divided on the question, with 44% saying yes and 56% saying no.



Both sides have good arguments. If you forego that daily coffee and plug those dollars into investment accounts instead, you could amass some serious savings over a long period. But small purchases are just a blip compared with the bigger decisions, such as your education and career choices and major decisions about housing, family and lifestyle.

The key tasks that matter more than coffee

There's also a strong case that a few key tasks matter a lot more than daily coffee purchases. All the irksome administrative tasks you might be putting off — those are the catalyst for a lifetime of smart, easy investment actions. Grab yourself a nice coffee and cross these off your list:

1 Get familiar with your workplace plan so you can maximize the impact.

This item is number one because it can have such a profound effect on your lifetime savings. Are you contributing enough to earn any employer matches? Can you bump your contribution higher? Are your investment choices appropriate for you? Use your workplace resources to make sure you are getting the most out of your plan.

2 Figure out how to use automated tools.

Hopefully you already use automated tools to contribute from each paycheck to your workplace retirement

plan. But you can also use automated tools to direct regular funds, however big or small, to other savings and investment accounts, including your Homestead Funds accounts. This option is available online (navigate to Open an Account or Log In) or you can send us a completed Automatic Transaction Sign-Up Form (see the Documents section of homesteadfunds.com).

3 Explore the other options for saving.

Explore the other options available to you to maximize your tax-deferred or tax-advantaged savings. Are you eligible for a deferred compensation program at your employer? Do you qualify to contribute to a traditional IRA? Have a non-working spouse?

Anyone can open a taxable brokerage account, which many people use to invest emergency fund savings, home purchase or renovation savings, or any other big financial goal.



4 Take your RMDs.

The penalty for not taking an RMD (required minimum distribution) is steep: half of the RMD value. Starting in the year after you turn 72, the IRS requires you to take RMDs from your workplace retirement plan and your traditional IRA. However, RMDs are never required from your Roth IRA.

5 Get to know your postretirement options.

When employees retire, they have to make a key decision about their workplace savings plan: Should they keep it where it is or roll it into an IRA somewhere else?

Turn the page for more info on this key decision. ■

It's Time to Retire. Now What?

Know Your Investment Options at Retirement Time

When it comes time to retire, you'll have some big decisions to make about your retirement savings. For those of us fortunate enough to have saved adequately, what we choose to do with our retirement nest egg could represent the largest financial transaction we will make in our lives.

There are four main choices that we cover in greater detail at **homesteadfunds.com** (search "Deciding what to do with your 401(k)"). But those leaving the workforce — and therefore not looking to move assets to a new employer's plan — and those concerned about taxes and possible premature distribution penalties eroding the value of the account will typically be choosing between leaving the money in the plan or rolling it over.

Here is a short list of how these options compare. Both allow your money to continue to compound tax-deferred until withdrawal.



Consider keeping it in your workplace plan

- ✓ If your employer allows this and you are happy with your plan, you can stay the course.
- ✓ Your plan may offer low-cost investments, as many workplace plans do.
- ✗ Workplace plans may limit distribution flexibility and usually require both spouses to sign a withdrawal form.



Consider rolling it over to an IRA

- ✓ You can choose from a wide variety of investments.
- ✓ Withdraw assets on demand and without needing a spouse's signature.
- ✗ Mutual fund fees and expenses are typically higher than for 401(k) investments (see page 3 for more on investment costs).



Be very careful about withdrawing your retirement account as a taxable distribution

If you just liquidate your retirement account, the IRS will treat that as a distribution and tax the full amount at your taxable income rate.



If you want to speak with a Homestead representative about your options, reach out anytime.

This table does not address your options for a Roth 401(k) or Roth IRA. Homestead Funds does not offer legal or tax advice. Please consult the appropriate professional regarding your individual circumstance.

The 2022 Tax-Filing and IRA Contribution Deadline Is April 18, 2023

Still working on your return?

Visit our tax resource center on the Solutions tab of **homesteadfunds.com** to find general information and documents related to your Homestead Funds' investments that you may need to file your return.

If you are looking for a copy of your year-end statement or tax forms, log in to your account and navigate to the "eDocuments" tab of the main navigation bar.

If you need help locating tax forms or other documents, call 800.258.3030, Monday–Friday, 8:30 a.m.–5:00 p.m. ET, to speak to a team member.

Looking to maximize your tax advantages?

You have until April 18, 2023, to contribute to an IRA for tax year 2022. Following are the basic eligibility requirements and contribution limits. Search "IRA" at **homesteadfunds.com** for more details.

Traditional IRA eligibility: Available to anyone who receives taxable compensation. You may be able to deduct the amount of your annual contribution from your taxable income, depending on your modified adjusted gross income and whether you or your spouse participates in an employer-sponsored retirement plan.

Roth IRA eligibility: Available to those who have taxable compensation and whose modified adjusted gross income is less than \$129,000 in 2022 (for taxpayers filing as single, head of household or married filing separately) or \$204,000 in 2022 (for married couples filing jointly or qualifying widow[er]).

Contribution limits for both IRA types: Up to \$6,000/year in 2022 (for those under age 50) or up to \$7,000/year in 2022 (for those age 50 or over). Note: You can't contribute more in a year than you earn. ■

Homestead Funds does not offer legal or tax advice. Please consult the appropriate professional regarding your individual circumstances.

Neither asset allocation nor diversification guarantees a profit or protects against a loss. They are methods used to help manage investment risk.

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Debt securities are subject to interest rate risk, credit risk, extension risk, income risk, issuer risk and market risk. The value of U.S. government securities can decrease due to changes in interest rates or changes to the financial condition or credit rating of the U.S. government. Investments in asset-backed and mortgage-backed securities are also subject to prepayment risk as well as increased susceptibility to adverse economic developments. High-yield, lower-rated securities involve greater risk than higher-rated securities. Equity securities generally have greater price volatility than fixed-income securities and are subject to issuer risk and market risk.

Investing in mutual funds involves risk, including the possible loss of principal. **Past performance does not guarantee future results.**

Investors should carefully consider fund objectives, risks, charges and expenses before investing. The prospectus contains this and other information about the funds and should be read carefully before investing. To obtain a prospectus, call 800.258.3030 or visit homesteadfunds.com.

The views expressed are those of the individuals as of February 9, 2023, and may have changed since that date. The opinions stated may contain forward-looking statements and may discuss the impact of domestic and foreign markets, industry and economic trends, and governmental regulations of the funds and their holdings. Such statements are subject to uncertainty, and the impact on the funds might be materially different from what is described here.

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