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Horizons 2023 3Q

A QUARTERLY NEWSLETTER FOR HOMESTEAD FUNDS' CLIENTS

Is America Ready to Retire?

Beginnings and endings come with all kinds of big decisions. Last quarter, we looked at young professionals and the financial choices that can get them off on the right foot as they enter their working years. This quarter, we turn our lens to the near-retiree crowd.

And boy do they have a lot to consider. Workers near retirement are probably asking themselves, When can I retire? When should I retire? Do I have enough in savings? What kind of lifestyle can I afford in retirement? And what the heck do I invest in once I am retired?

For workers who have a pension or 401(k) plan, there could be other considerations on the table — decisions about lump sum payouts, plan rollover options and more. The current state of the markets affects all of these inputs and, in turn, affects your answers to all of those retirement questions.

In this issue, we take a look at some key topics around retirement. We look at whether the pandemic did — or did not — change retirement trends for this generation. We look at the two phases of retirement and how those might change your financial planning. We offer some reasons to cheer when it comes to higher interest rates, and we share some of the ideal retirement conditions that the average American dreams of.

For those who are near retirement or starting to daydream in that direction, this issue should provide you with some food for thought. What will 2024 bring for you? Only you can decide. ■

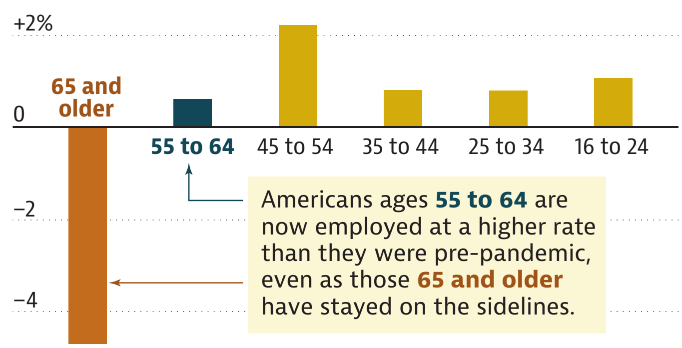
How the Pandemic Changed Retirement Trends

The workforce has been on a roller coaster over the past few years, and the near-retirement crowd has been on an especially wild ride. After extreme job losses early in the pandemic, many worried that near-retirees had been pushed prematurely out of the workforce. Here, we investigate the reality of work for baby boomers and look at whether the shock had any impact on retirement readiness.

Continued on page 2

THE 65+ CROWD OPTS FOR RETIREMENT PARTIES

Change in employment rate since 2019, by age



Percentages compare June 2023 with the 2019 average. Data is seasonally adjusted.

Source: Bureau of Labor Statistics

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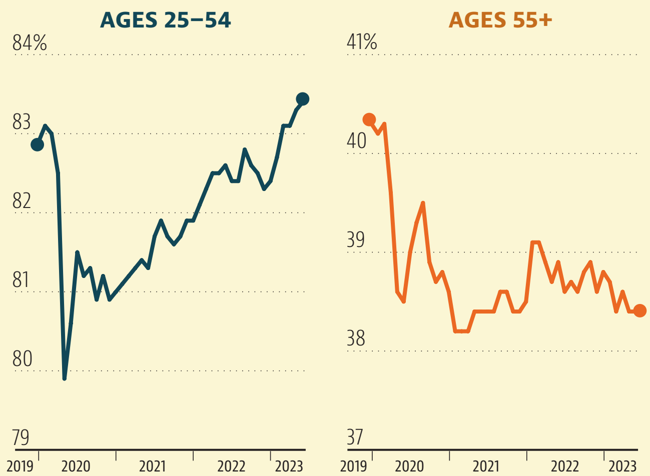
The 65+ crowd is more likely to be retired, post-pandemic

One age group does seem to have adopted a "new normal" when it comes to work — the 65+ crowd. Employment rates have recovered back to 2019 levels for all other age groups. For the 65+ crowd, however, the employment rate is down more than 4% compared with pre-pandemic measures. An alternate metric, workforce participation rate, also shows that older workers have not returned to the labor market in the same quantities as the so-called prime age workers.

WORKFORCE PARTICIPATION LEVELS HAVE NOT RECOVERED AMONG OLDER WORKERS

Labor force participation rate



Source: Strategas, Bureau of Labor Statistics

Given these trends, we might wonder if older workers were actually forced to retire in large numbers. However, that does not seem to be the case. Only about 10% of retirees said they were forced to retire or that they faced a lack of work, according to the Federal Reserve's 2021 Survey of Household Economics and Decisionmaking (SHED).

More subtle changes could be contributing to the working habits of older workers — including the growing importance of lifestyle balance. Economists continue to study the pandemic's lasting impact on trends such as remote work and flexible hours. The 65+ crowd could be holding tight to some of the changes of the past few years just because they prefer them.

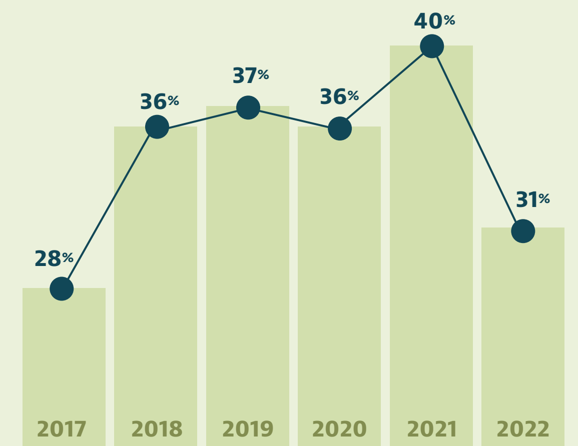
Fewer people feel that their savings are 'on track'

Did this major shock disrupt people's confidence around their retirement savings? Well, not exactly. The number of people who viewed their retirement savings plans as being "on track" actually climbed in 2021, post-shock — but then it plummeted in 2022.

It probably wasn't the pandemic that drove this response as much as it was the bear market of 2022. Stocks in general faced a rough year in 2022, and actually, bonds did as well. It's historically unusual for stocks and bonds to decline in tandem, but 2022's economic conditions — high inflation and a rapid interest-rate-hiking cycle — led to poor performance across the board.

2022'S BEAR MARKET DAMPENED CONFIDENCE

View retirement savings plan as on track (by year)



Source: Federal Reserve 2022 Survey of Household Economics and Decisionmaking

Arguably, the macroeconomic conditions of 2022 were an indirect result of the pandemic. Labor lockdowns and supply shortages pushed prices up across many areas of the economy, and a rush of fiscal stimulus was like fuel on the fire. Together, these factors drove the sharp uptick in inflation and resulting interest-rate hikes. But 2023 has so far been a more positive year in investment markets, and that could be restoring confidence.

A third of baby boomers expect to work some in retirement

Ever more workers say they believe they will work in retirement. In fact, 36% of baby boomers and 32% of Generation X workers say they expect some of their retirement income to come from continued work, according to the 23rd Annual Transamerica Retirement Survey of Workers.

The reality may not exactly match up with expectations. In its 2022 SHED report, the Fed shared that only 13% of retirees said they had worked for pay in the past month. It's also unclear how much these trends have been affected by the pandemic; more likely, the trend toward later retirement ages and continued work in retirement are part of a longer-term shift that is driven by many factors, including longer life spans and a higher retirement age for Social Security benefits. ■

Planning for the Two Phases of Retirement

Retirement tends to be painted with a broad brush as a single phase of life that comes after working. However, it's really more like two phases for many people. Here we consider the nuances and offer some thoughts about planning for each phase.

Active retirement as a time to 'carpe diem'

When people dream of retirement, it's the free time that they really look forward to. Two-thirds of baby boomers say they dream of traveling in retirement, while half plan to spend more time with family and friends. Hobbies, volunteer work and grandchildren also rank high on the list.

Retirees enjoy a languid seven hours of leisure time per day, according to the data from the 2021 American Time Use Survey. They spend a lot more time sleeping and watching tv than their younger counterparts. They enjoy a lot more time just relaxing and thinking compared with younger groups, and they spend more time reading than any other age group.

HOW BABY BOOMERS DREAM OF SPENDING RETIREMENT

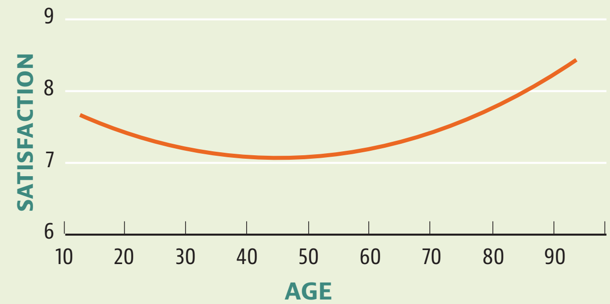
Source: 23rd Annual Transamerica Retirement Survey of Workers

Later retirement as the happiest years of life

Somewhere along the line, everyone slows down. The later phase of retirement is a time when people are probably traveling less and spending more time at home. Health often determines that timing for each of us. Americans estimate that they'll live to a median age of 88, spending 25 years or so in retirement.

Yet slower doesn't mean less enjoyment. Happily, researchers find that people in their 80s and 90s register the highest levels of life satisfaction — and they experience negative emotions such as stress and anger less frequently than younger groups.[1]

LIFE SATISFACTION JUST KEEPS CLIMBING AFTER MIDLIFE



Source: Kaiser Permanente; Who's Happier — People in Their 40s or 80s?

Brookings Institute scholars used Gallup polls to show relationship between age and well-being. Respondents rated their life satisfaction relative to "best possible life" for them, with 0 being worst and 10 being best.

Planning for each phase

If retirement means different things at different times, it follows that your financial planning should take these differences into account.

For instance, if you are keeping an active and busy schedule of travel and hobbies in the early years of your retirement, you may need to think of a higher income-replacement ratio than you'll need in later years. The income-replacement ratio is a way of quantifying your retirement spending as a percentage of your pre-retirement spending. Financial planners often recommend aiming for an income-replacement ratio of 70%, although many retirees live off annual incomes considerably lower than that level.

A higher replacement ratio will require higher savings. Some retirees make up the financial gap by working part time into retirement. Others adjust their lifestyle, moving into smaller homes or lower-cost areas, to lower their expenses.

Making the most of each phase

As you approach retirement, it can be helpful to think of retirement in phases rather than as one uniform era of life. This mindset could even help you take advantage of the opportunities you encounter at each phase. ■

[1] USC Dornsife College of Letters, Arts and Sciences; Happiness Across the Life Span: Not a Slippery Slope After All; Susan Bell; Novemer 25, 2019

Something for Retirees to Cheer: Higher Interest Rates

Higher interest rates may seem like a bad thing, as they push up the cost of mortgages, credit card balances, auto loans, student loans and just about any other source of borrowing. But those higher rates are actually a benefit to those on the lending side — which could include you!

Do you think of yourself as a lender? Well, you are, if you are invested in any kind of money market fund, bond fund, bank savings account or CD, or anything else that pays interest. It can get lost in translation, but every investor in a bond fund is effectively a lender. Whenever an entity issues a bond to raise money, it is borrowing cash from all the investors. In return, it pays interest, often referred to as a coupon. A bond is an IOU. Bond funds buy up a mix of IOUs, collecting the interest payments for holding the bonds. If you put some of your money in a bond fund, you are one of the lenders! That's exactly why you are paid interest in return.

Who are you lending to? In the case of Treasury bonds, you are lending to the U.S. government. If it's an agency issue, you are lending to the agency, for instance, the Federal National Mortgage Association (Fannie Mae), or perhaps even a federally owned electric utility, such as the Tennessee Valley Authority. Big corporations borrow money through bonds, and groups of mortgages and other loans are often repackaged by banks to make up bonds.

Why rates are higher now

Inflation is a nasty curveball when you are trying to manage your household expenses, but we can thank inflation for rising bond yields. The Fed uses higher interest rates as a tool to cool inflation; conversely, the Fed will often slash interest rates to stimulate the economy or help markets through a crisis.

Inflation is hopefully a short-lived phenomenon, if the Fed's efforts are productive. But the interest rate increases can be a gift that keeps on giving. If the government issues a fixed-rate 10-year Treasury bond when rates are at a higher level — for example, 5% — that bond has to pay out 5% per year in interest until it matures, even if inflation falls back down and market interest rates decline.

Appeal climbs for conservative investments

Higher interest rates make bond and money market funds more appealing for all investors, but conservative-leaning investors might be cheering most of all. After years of near-zero returns for bond funds, conservative dollars finally have a place to land that can also generate returns.

For retirees, portfolio income can have an added benefit: As interest payments accumulate, they can be easily pegged for withdrawals. Investors can tap into some cash from their portfolios without having to sell bond fund holdings to produce it.

Are higher interest rates good or bad? As the saying goes, where you stand depends on where you sit. For savers who are holding bond funds, higher yields can have a lot of appeal. ■

Understanding Yields

The seven-day effective yield is a measure of the annualized yield for a money market fund based on the average income return for the prior seven days. The 30-day Securities and Exchange Commission yield is an annualized yield that reflects — after deducting for fund expenses — dividends and interest earned in the prior month. Income is one component of a bond fund's total return; price appreciation or depreciation is the second. Investors should consider both total return and yield when comparing funds. For the most recent yields and total returns for Homestead Funds, visit ***homesteadfunds.com***. ■

THE HOMESTEAD FUNDS LINEUP OF FIXED-INCOME INVESTMENTS

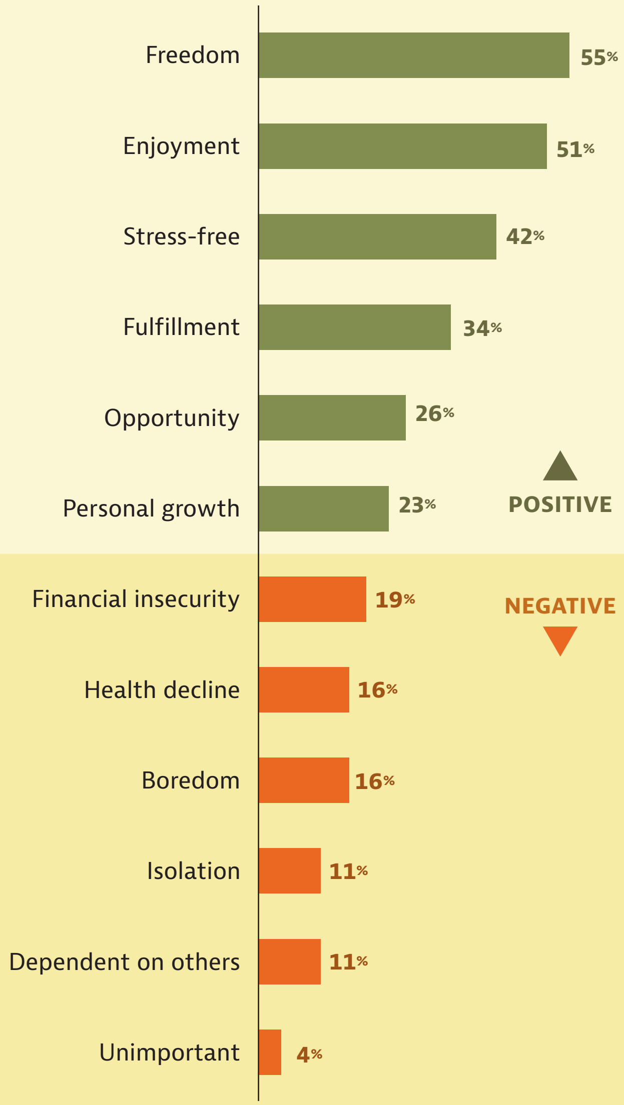
Daily Income Fund	Short-Term Government Securities Fund	Short-Term Bond Fund	Intermediate Bond Fund
Category: MONEY MARKET	**Category:** SHORT U.S. GOVERNMENT BOND	**Category:** SHORT-TERM BOND	**Category:** INTERMEDIATE CORE BOND
Holds: The shortest-term government securities, including Treasuries and agencies	**Holds:** Treasuries and agencies, plus a limited mix of short-term corporate issues	**Holds:** Some Treasuries and agencies, plus a bigger mix of short-term corporate issues, asset-backed securities and mortgage-backed securities	**Holds:** A few Treasuries and agencies, with more corporate issues, asset-backed securities and mortgage-backed securities

A Picture of Retirement

Retirement is a time many people look forward to. According to one survey, about half of Americans say they think of retirement four or more times a week.[1] Here are some of the things they may be daydreaming about.

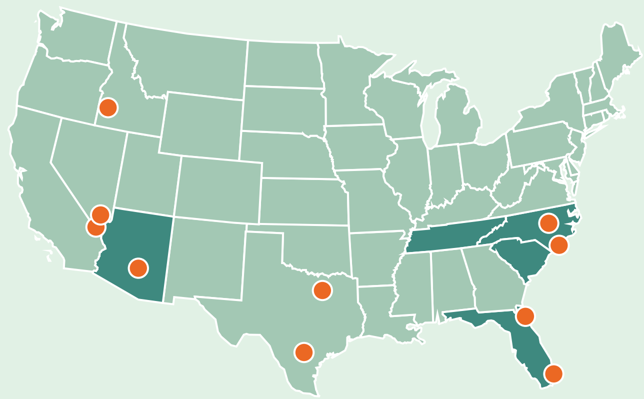
People name POSITIVE associations with retirement[2]

Which of the following do you personally associate with the word "retirement"?
All Workers (%)



Warm and sunny locales top the wish list[3]

Florida had the nation's largest net migration of people 60 and older. Four Sun Belt states — Arizona, South Carolina, North Carolina and Tennessee — had the next largest net migrations of people 60 and older.



TOP PLACES WHERE RETIREES ARE MOVING

1. Mesa, AZ
2. Henderson, NV
3. San Antonio, TX
4. North Las Vegas, NV
5. Boise, ID
6. Wilmington, NC
7. Frisco, TX
8. Miami, FL
9. Jacksonville, FL
10. Raleigh, NC

Ideal home is a one-story coastal house[1]

POPULATION
52,000

STYLE
One-story ranch home

SETTING
Coastal/ Beach

SIZE
1,635 square feet

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[1] Provision Living, Senior Living Communities; America's Ideal Retirement Lifestyle

[2] Transamerica Center for Retirement Studies; Post-Pandemic Realities: The Retirement Outlook of the Multigenerational Workforce; 23rd Annual Transamerica Retirement Survey of Workers; July 2023

[3] SmartAsset; Where Retirees Are Moving — 2023 Study; Patrick Villanova, CEPF; April 18, 2023

We Offer Planning Resources and a Range of Account Types

KEY ■ Suggested for this goal ■ Could also work for this goal ■ Not typically used for this goal

GOAL	Individual or Joint Taxable Account	Traditional IRA	Roth IRA	Education Savings Account	UGMA/UTMA Account	Trust Account
Rainy Day Savings	Suggested for this goal	Not typically used for this goal	Not typically used for this goal	Not typically used for this goal	Not typically used for this goal	Not typically used for this goal
Big Ticket Item	Suggested for this goal	Not typically used for this goal	Not typically used for this goal	Not typically used for this goal	Not typically used for this goal	Not typically used for this goal
Home Sweet Home	Suggested for this goal	Could also work for this goal	Could also work for this goal	Not typically used for this goal	Not typically used for this goal	Not typically used for this goal
Higher Education	Not typically used for this goal	Could also work for this goal	Could also work for this goal	Suggested for this goal	Suggested for this goal	Not typically used for this goal
Celebrations	Suggested for this goal	Not typically used for this goal	Not typically used for this goal	Not typically used for this goal	Not typically used for this goal	Not typically used for this goal
Golden Years	Suggested for this goal	Suggested for this goal	Suggested for this goal	Not typically used for this goal	Not typically used for this goal	Suggested for this goal
Giving	Suggested for this goal	Suggested for this goal	Not typically used for this goal	Suggested for this goal	Suggested for this goal	Suggested for this goal
Big Picture Planning	Suggested for this goal	Suggested for this goal	Suggested for this goal	Suggested for this goal	Suggested for this goal	Suggested for this goal

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

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

As a money market fund, the Daily Income Fund has limited potential for income production. You could lose money by investing in the Fund. Although the Fund seeks to preserve the value of your investment at $1.00 per share, it cannot guarantee it will do so. An investment in the Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The Fund's sponsor has no legal obligation to provide financial support to the Fund, and you should not expect that the sponsor will provide financial support to the Fund at any time.

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. The market price of equity securities may go up or down, sometimes rapidly or unpredictably. Equity securities may decline in value due to factors affecting the issuer or equity securities markets generally.

Loans are subject to risks involving the enforceability of security interests and loan transactions, inadequate collateral, liabilities relating to collateral securing obligations and the liquidity of the loans.

Value stocks are subject to the risk that returns on stocks within the style category will trail returns of stocks representing other styles or the market overall over any period of time and may shift in and out of favor with investors generally, sometimes rapidly, depending on changes in market, economic and other factors. Investments in value securities may be subject to risks that (1) the issuer's potential business prospects will not be realized; (2) their potential values will never be recognized by the market; and (3) their value was appropriately priced when acquired and they do not perform as anticipated.

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.

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