Homestead Funds' Helpful Tips

Building Your Retirement Savings

Homestead Funds

A generation or two ago, workers relied on the "three-legged stool" for their retirement income. The three legs — Social Security, employer pension and personal savings — supplied a steady retirement income. Now, with Social Security retirement benefit formulas changing and many employers shifting away from traditional pension plans, workers must depend more on their own savings for retirement income. Also, Americans are living longer and health care costs continue to climb — which increase the need to save even more for retirement.

Put time on your side

Start saving for retirement early in your career to give your money a chance to grow over time. But, even if other commitments have prevented you from starting, it's never too late to save.

Determine how much you will need

The general rule of thumb is that you will need 70 percent to 80 percent of your preretirement income or more each year to achieve a comfortable lifestyle in retirement. Next, you should project how long you think your retirement may last. Make an educated guess, starting with the average life expectancy and factoring in knowledge about your personal health. Although the average life expectancy for Americans is 78,* as you age you prove your ability to live longer, and your life expectancy increases. For example, the life expectancy for those who reach age 65 is 86** — eight years beyond the average life expectancy.*

* *Source: U.S. Census Bureau, 2012 Statistical Abstract*
** *Source: IRS Publication 590, Appendix C, single life expectancy*

"In addition to my 401(k) account, I contribute to an IRA. I tell callers that together, these two accounts can help them stash away the savings they'll need. Here's some information to help you decide which kind of IRA accounts may work well for you."

–Raymond Scott, CFP®
Registered Representative

Saving through an employer's plan

There are several good options for accumulating savings for retirement, but contributing to an employer-sponsored retirement plan, such as a 401(k) or 403(b) plan, should be at the top of your list. These plans offer important benefits:

- Your earnings compound tax-deferred. You may also be able to contribute to a Traditional or Roth account, which gives you the flexibility of saving pre-tax or after-tax, whichever is most advantageous.
- You can contribute more to employer-sponsored plans than is allowed by individual plans.
- Your employer may make matching contributions to your account. If so and you do not participate, then you are passing up free money.

IRAs offer tax advantages, flexibility

An Individual Retirement Arrangement (IRA) is another good choice to help you save for retirement. Like a 401(k) account, IRA earnings compound tax-deferred. But IRAs have some attributes and tax benefits that are different from a 401(k) plan:

- Depending on the type of IRA you choose, your contribution may be tax-deductible.
- IRAs are not linked to your job. You can make IRA-to-IRA exchanges or transfer your IRA from one investment company to another at any time.
- A Roth IRA allows you to make tax-free withdrawals, which gives you additional flexibility in deciding how best to draw down your total mix of retirement accounts.

Consider using a 401(k) plan account as your primary retirement savings account. Contribute as much to your employer's savings plan as possible — at least make sure you contribute enough to collect the maximum matching contribution your employer offers.

Then, once you've "maxed out" your employer plan contributions, contribute to an IRA to complement your employer account. That gives you greater flexibility in managing distributions for tax efficiency.

How a Traditional IRA compares with a Roth IRA

	Traditional IRA	Roth IRA
Who may contribute	• **Anyone who receives compensation — unless that person is over age 70 ½.**	• **Anyone who receives taxable compensation— no matter what age.** • Your adjusted gross income must be less than $193,000 for joint filers (or $122,000 for single filers) to be eligible to make the full contribution to a Roth IRA for tax year 2019. If your income is higher, you may be able to make a partial contribution.
Maximum contribution per year (to all IRA accounts)	• For tax year 2019, the annual limit is 100% of your earned income or $6,000 ($7,000 if age 50 or above), whichever is less.	• For tax year 2019, the annual limit is 100%of your earned income or $6,000 ($7,000 if age 50 or above), whichever is less.

	Traditional IRA	Roth IRA
Tax/penalty at withdrawal	• **Distributions from Traditional IRAs are generally taxed as income.** If you take money out of a Traditional IRA before age 59 ½, you may be subject to a 10% premature distribution penalty.	• **Distributions from Roth IRAs generally are not taxed as income provided you are age 59 ½ or older and the account has been open for at least five years.** Premature distributions of account earnings may be subject to a 10% penalty.
Tax benefits	• **Tax-deferred compounding and possibly a current-year tax deduction.** • You may be able to deduct the amount of your annual contribution from your taxable income, depending on your adjusted gross income and whether you or your spouse participates in an employer-sponsored retirement plan. See note on next page. Unlike a Roth IRA, distributions from Traditional IRAs are generally taxable as income when received.	• **Tax-deferred compounding and tax-free distributions.** Amounts withdrawn from Roth IRAs are not subject to income tax if you are at least age 59 ½ and the account has been open for at least five years. • Unlike a Traditional IRA, Roth IRA contributions are not deductible.
Portability of account balance	• **You can exchange balances** from one Traditional IRA into another Traditional IRA or transfer these accounts from one investment company to another at any time. • **When you retire or leave your job,** you can move account balances from an employer-sponsored plan to a Traditional IRA. This is called a Rollover IRA. • **You may also be able to transfer an account balance** in a Traditional IRA into your plan at work.	• **You can exchange balances** from one Roth IRA into another Roth IRA or transfer these accounts from one investment company to another at any time. • **You may be able to move amounts from a Traditional IRA into a Roth IRA,** but taxes would be due. This is called a Roth conversion. • **Account balances may not be rolled over** into an employer-sponsored plan.
Required Minimum Distributions (RMDs)	• After age 70 ½, you must start taking required minimum distributions from this account.	• There is no age at which you must take distributions from this account.
This account may be appropriate for you if...	• You are eligible to make a tax-deductible contribution. • You earn too much to contribute to a Roth IRA. • You do not need your savings until at least age 59 ½.	• You are not eligible to make a tax-deductible contribution to a Traditional IRA. • You think you may be in a high tax bracket at retirement. • You want to contribute after age 70 ½ or do not want to be forced to start taking RMDs. • You intend for this account to be part of your estate. Assets from a Roth IRA can be passed on to heirs, free of income tax.

For information specific to your situation, consult a tax professional.

Understanding Traditional and Roth IRAs

Use the table inside to see whether a Traditional or Roth IRA works best for you.

Contributions to Traditional IRAs may be tax-deductible

If neither you nor your spouse participates in an employer-sponsored retirement plan, your entire contribution to a Traditional IRA may be deductible. If you do participate in an employer-sponsored retirement plan, the deductibility depends on your annual income and tax-filing status.

For more information, call us at 800.258.3030 to speak with one of our friendly client services associates and to request a prospectus. *Investors are advised to consider fund objectives, risks, charges and expenses carefully before investing. The prospectus contains this and other information. Read the prospectus carefully before you invest or send money. For information specific to your situation, consult a tax professional.*

We have helpful tips on other investment topics, too!

Download a complimentary fact sheet about any of the following topics from our website at homesteadfunds.com under the "Find a Document" link or call one of our friendly associates at 800.258.3030. We're here to help!

- Deciding What to Do with Your 401(k)
- Handling Investment Risk
- Managing Your Savings in Retirement
- Saving for Education
- Simplifying Account Management
- Simplifying Tax Time for Investors
- Taking Your Required Minimum Distribution
- Understanding Mutual Fund Costs

Put your IRA contributions on cruise control. If you've tried to invest regularly but had trouble maintaining the discipline, consider Homestead Funds' automatic investing program. This convenient way to build your retirement savings may reduce your stress level so you can focus on more important matters. Automatic investing does not ensure a gain or protect against a loss in a declining market.

Mutual funds are subject to market risk, including the potential loss of principal invested.
The information provided herein is not directed at any investor or category of investors and is provided solely as general information about our products and services and to otherwise provide general investment education. No information contained herein should be regarded as a suggestion to engage in or refrain from any investment-related course of action as none of Homestead Funds, RE Advisers, nor any of its affiliates is undertaking to provide investment advice, act as an adviser to any plan or entity subject to the Employee Retirement Income Security Act of 1974, as amended, individual retirement account or individual retirement annuity, or give advice in a fiduciary capacity with respect to the materials presented herein. If you are an individual retirement investor, contact your financial advisor or other fiduciary about whether any given investment idea, strategy, product or service described herein may be appropriate for your circumstances.

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