

Homestead Funds' Helpful Tips

Deciding What to Do with Your 401(k)



When you leave your job or retire, you have to decide what to do with the money in your current employer's retirement plan. You worked hard to accumulate this nest egg. It may even be your most significant financial asset. So, you want to make your decision carefully. This brochure offers you some guidance as you go about making up your mind.

You have four main choices for distribution

For most plan participants, there are four main options for a 401(k) account:

Each of these options has advantages and disadvantages to consider. On the opposite page is a table that lists the pros and cons of each choice. When considering

your choices, keep in mind your own situation and your specific needs to determine what works best for you.

Option 1

Leave your 401(k) money where it is

Option 3

Transfer your 401(k) money to your new employer's 401(k) plan

Option 2

Roll over your 401(k) money to an IRA

Option 4

Withdraw all your 401(k) assets now (as a cash distribution)

How can Homestead Funds help?

Homestead Funds offers a variety of account types, including a Rollover IRA. Rolling over your 401(k) to a Homestead Funds IRA is just one of several options available to you. Read on for more information.



"We talk to many people leaving their jobs or approaching retirement who aren't sure what to do with their 401(k) accounts. We lay out all the options. We think this information will help you make a choice, too."

—Alaina Schrager, CFP®
Registered Representative

Four options for your 401(k)

Options	Advantages	Disadvantages
<p><i>Option 1</i></p> <p>Leave your 401(k) money where it is</p>	<ul style="list-style-type: none"> Your money continues to compound tax-deferred until withdrawal. Your account is not depleted by payment of income tax or a premature distribution penalty. In the case of bankruptcy or other judgments, 401(k) accounts generally offer greater protection from creditors than IRAs. 	<ul style="list-style-type: none"> Not all employer plans permit this. If you take a distribution from the plan prior to age 59 ½, you may face a 10% penalty. (Exception: Participants who terminate employment in the year they turn 55 are exempt from the premature distribution penalty.) You may have limited access to your money or extra paperwork to authorize a redemption.
<p><i>Option 2</i></p> <p>Roll over your 401(k) money to an IRA</p>	<ul style="list-style-type: none"> Your money continues to compound tax-deferred until withdrawal. Your account is not depleted by payment of income tax or a premature distribution penalty. You can consolidate other Rollover IRA accounts into one account to simplify your retirement savings. You may be able to use these savings penalty-free, for example, if taking an early distribution for education or the first-time purchase of a home. IRAs provide easy access to your money, no waiting period and no need to obtain spousal consent. 	<ul style="list-style-type: none"> If you take a distribution from your IRA prior to age 59 ½, you may face a 10% penalty. Mutual fund fees and expenses are typically higher than for 401(k) investments. Direct rollovers are not limited in number, but you may only make one indirect rollover per year across all your IRA accounts.
<p><i>Option 3</i></p> <p>Transfer your 401(k) money to your new employer's 401(k) plan</p>	<ul style="list-style-type: none"> Your money continues to compound tax-deferred until withdrawal. Your account is not depleted by payment of income tax or a premature distribution penalty. 	<ul style="list-style-type: none"> You may not be eligible for the plan right way. Investment choices may be limited. You may have limited access to your money.
<p><i>Option 4</i></p> <p>Withdraw all your 401(k) assets now (as a cash distribution)</p>	<ul style="list-style-type: none"> You can use the cash for immediate needs. 	<ul style="list-style-type: none"> Your money loses its tax-deferred status. Your distribution is subject to mandatory income tax withholding (20%, but your actual tax due may be more or less) and may be subject to a premature distribution penalty (10%) if you are below age 59 ½.

This table does not address your options for a Roth 401(k) or Roth IRA. For tax information specific to your situation, consult a tax professional.

A Rollover IRA may be right for you

Besides the advantages shown on the following page, consider these benefits of rolling over your money to an IRA:

You control access to your money

You can withdraw assets from your IRA at any time. Distributions are taxable as income and, if you are under age 59 ½, you may face a 10 percent IRS penalty.

Convenient transactions

Add to or exchange shares by phone, online or by mail. Redeem shares by phone or mail. Spousal consent is not required.

We strive to keep fund costs low

Homestead Funds' philosophy is to keep fees and expenses as low as possible. With less money deducted from fund assets to cover operating costs, more of your money is working for you.

All Homestead Funds are offered at no-load, meaning no sales charge is deducted from your investment. There are no transaction fees. Additionally, our fund operating expenses for active equity and bond funds are in line with or below their peer group medians, as determined by Morningstar. Operating

expenses cover the cost of running the fund and include investment management, accounting, legal and compliance services, record keeping and statement production. All mutual funds incur expenses.



You can trust Homestead Funds because you already know us — we're part of the NRECA family. Homestead Funds was created in 1990 to provide NRECA members with professional and affordable money management. Call us at 800.258.3030.

Interested in rolling over to a Homestead Funds Roth IRA?

Changes to the law allow you to roll over your 401(k) directly into a Homestead Funds Roth IRA.

Due to rising popularity in recent years, many employers have provided their employees with the option of making Roth (after-tax) contributions to their 401(k) plans. If you do have Roth 401(k) assets, rolling over to a Homestead Funds Roth IRA would provide you with the convenience and flexibility of an IRA while offering the continued potential for tax-free growth. Even if your 401(k) contributions were made on a pre-tax basis, a Roth IRA may be worthy of your consideration. Changes made to tax laws in 2009 removed the income limitations for processing a conversion of your pre-tax 401k to a Roth IRA. Please be aware you will need to pay any taxes associated with a conversion.

Taxable amounts in the 401(k) must be reported as taxable income for the year of the direct rollover to the Roth IRA.

Also, beginning in 2010, the rule against conversions by people who are married filing separately no longer applies.

Fast and easy

We make it easy for you to move your 401(k) account to a Homestead Funds Rollover IRA.

Just 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.*

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, or call one of our friendly associates at 800.258.3030.

- Building Your Retirement Savings
- 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

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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