

# Horizons 2Q | 2017

A Quarterly Newsletter for Homestead Funds' Shareholders

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## Talking to Yourself About Money

As the behavioral economist and personal finance author Sarah Newcomb explored in her 2016 book *LOADED*, our money stories are a powerful force behind our money habits. These stories are the internal dialogue behind our financial decisions. Without realizing it, they insert themselves into our thinking constantly. They may be good stories or bad, and they may be true or untrue. The most important point to realize is that we all have stories that shape our perspectives on wealth, status and self-worth.

Brené Brown, a social work professor and expert in the emotions that drive behaviors, notes that our money stories are often rooted in vulnerability, courage, worthiness, guilt and shame — a lineup that represents some of the most powerful human emotions.<sup>1</sup>

(continued on page 2) ►

### The Stories We Tell

*I should have checked on my retirement account more often.*  
*I never get to do anything for myself so I deserve that new purse / motorcycle / television.*  
*I haven't done a good job of learning about my investments.*  
*The people in my family are terrible with money.*  
*I would be embarrassed if my friends knew about my credit card debt.*  
*Life is short and I deserve to enjoy my money now.*

## Does DIY Investing Make You Nervous?

Our society is becoming decidedly more self-serve. We pump our own gas and ring up our own groceries. We do a lot of our banking with an ATM, instead of a teller. We sometimes diagnose our own ailments with a bit of internet research. And the proliferation of 401(k)s and IRAs puts money management responsibilities on our shoulders as well. Some of these tasks are simple, but some are quite complex, and at times, burdensome.

In terms of your financial planning decisions, there are a number of ways that Homestead Funds can be a good partner. We offer a range of funds with low investment minimums and competitive expense ratios. (All Homestead Fund expense ratios are in line with or below peer group medians, according to Morningstar for the period ending December 31, 2016.) We can help you figure out what kinds of investments are appropriate for you. Our on-staff

financial planners are available to listen and offer guidance on your money management questions.

But in our work with investors, we see many who also struggle with issues closer to the heart: their feelings about money. Emotions can stand between you and healthy saving habits, or create anxiety about the ups and downs of investing in stocks.

We may be able to help in these matters, too. In fact, research suggests that the greatest value in working with a financial planner or advisor comes from having a sounding board for those panicky moments, being able to talk through worries with a trusted resource rather than selling investments in a panic. We've also developed educational materials that can demystify investing, and help you feel more in control of your financial decisions. Read on in this



**Stephen Kaszynski, CFA**  
Director, President and CEO

issue for a closer look at money and emotions.

When money management is self-serve, citizens need regulations to protect their interests. You may have heard of the new Department of Labor (DOL) fiduciary rule, taking effect in stages beginning June 9, 2017, which aims to do just that. Check out page 3 of this issue for a broad perspective on how the DOL rule applies to our funds and investors. ✨



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Funds**

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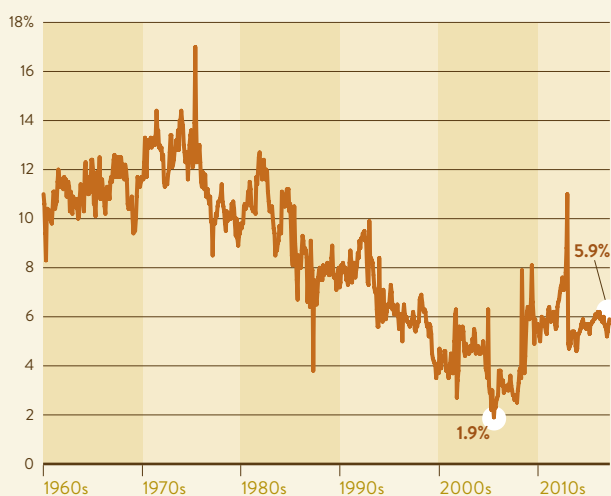
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## An Urgent Matter

As individuals become responsible for providing their own “pension,” they must become masters of saving and investing. Most financial planners estimate that people should save 10 – 15% of their income each year to accumulate sufficient savings by retirement.

By that measure, we’re all falling woefully short. The national personal savings rate in the U.S. has hovered around 5 – 6% since the financial crisis — better than the pre-crisis low of 1.9%, but still far below the level needed to sustain our citizens

### The Personal Savings Rate in the U.S. Falls Short



Source: Federal Reserve Bank of St. Louis.

in old age. The rate of saving among Americans is also generally below that of earlier generations — the national personal savings rate was north of 10% for most of the 60s and 70s — and below the current rate of most other developed nations, according to the OECD.<sup>2</sup>

## Middle-Class Woes

The matter is even more urgent than the average savings rate suggests. Research shows that savings rates vary widely among income brackets — and only the richest people are saving much at all.<sup>3</sup> In fact, from 2010 – 2012, the average savings rate for the “bottom 90%” — that is, all but the top 10% of earners — was about 0%. In the 2000s, this cohort, which represents the majority of Americans, had a *negative* savings rate. Instead of saving, they were going into debt.

These patterns are unfortunately nothing new. The highest earners have perpetually higher savings rates, while the rest of the population hovers in the 0 – 5% rate over the long term.

## Only the Top Earners Are Saving

Approximate Savings Rate by Income Bracket, 2010 – 2012

Top 1% of earners	39%
Top 10-to-1% of earners	15%
Bottom 90% of earners	0%

Source: Emmanuel Saez and Gabriel Zucman, “Wealth Inequality in the United States since 1913: Evidence from Capitalized Income Tax Data,” National Bureau of Economic Research, Working Paper No. 20625, 2014.

This entrenched difference in savings rates is one of the reasons that the “rich get richer,” as they say.

## Our Cultural Values Matter

Americans enjoy one of the highest standards of living in the world. But for better or worse, our free market and individualistic society is quite status-driven. And material goods are a reliable indicator of status — we may be “keeping up with the Joneses” just to demonstrate our worth to ourselves and our peers, without ever realizing it. In a culture filled with nonstop advertising, celebrity worship and now the 24/7 online access to shopping, the drive to consume is overriding the need to save.

The young people in our society may be the biggest victims of this consumption-first culture. In a 2009 study by a Notre Dame sociologist, well over half of “emerging adults” — those aged 18 to 23 — agreed that their “well-being can be measured by what they own, that buying more things would make them happier, and that they get a lot of pleasure simply from shopping and buying things.”<sup>4</sup>

## Put Your Stories Under the Microscope

As you evaluate your own finances, take time to consider the stories behind your choices and habits. Both your personal experiences and your cultural setting can be powerful drivers of your big and small decisions. Consider this a matter of great urgency — your savings depends on it. ✨

<sup>1</sup> [www.forbes.com/sites/jeanchatzky/2016/08/22/has-money-ever-made-you-feel-confused-frustrated-guilty-shameful-read-this/#1bc0cae61ee6](http://www.forbes.com/sites/jeanchatzky/2016/08/22/has-money-ever-made-you-feel-confused-frustrated-guilty-shameful-read-this/#1bc0cae61ee6)

<sup>2</sup> [data.oecd.org/natincome/saving-rate.htm](http://data.oecd.org/natincome/saving-rate.htm)

<sup>3</sup> [www.hoover.org/sites/default/files/research/docs/chapter\\_6\\_-\\_kevin\\_murphy\\_and\\_emmanuel\\_saez.pdf](http://www.hoover.org/sites/default/files/research/docs/chapter_6_-_kevin_murphy_and_emmanuel_saez.pdf), page 19.

<sup>4</sup> [www.wsj.com/articles/how-to-raise-an-american-adult-1493995064](http://www.wsj.com/articles/how-to-raise-an-american-adult-1493995064)

# Five Steps to Stop Stressing About Retirement Savings

The news from the front lines of retirement is actually pretty good, according to a recent *Wall Street Journal* survey of retired readers. Many retirees report blossoming social lives and a high level of happiness from learning new skills and trailblazing into new activities.<sup>1</sup>

But the thing retirees and near-retirees worry about the most: money. An AARP survey of baby boomers found that financial concerns plagued 49% of respondents.<sup>2</sup> Do you share that concern?

Here are a few actionable tips to help you check your retirement readiness — and hopefully, your stress levels.

## 1 Evaluate your nest egg.

First, create a tally of your savings. Add up all your financial accounts, including employer-sponsored savings plans, IRAs and regular savings and investment accounts. Then add up your other assets, including property and cars. Next, mark down all of your debts — credit cards, mortgage, car and home equity loans and anything else you owe.

Make note of two different numbers: your total net worth (all of your assets minus all of your debts), and your liquid net worth (your financial accounts minus all of your debts). These two numbers give a good sense of your current nest egg.

## 2 Map out future income sources, including social security and pensions.

Each year, you receive a report from the Social Security Administration with a projection of your monthly Social Security benefit. If you can't find your annual statement, try using [www.ssa.gov](http://www.ssa.gov), which has a calculator to estimate your benefits, or if you create an account, a tool that shows your actual projected benefits.

If you're eligible for a pension, you'll get an annual statement from your employer showing your benefits. You may also have online access to this information.

## 3 Get a handle on expected health care costs.

Those over 65 are eligible for Medicare, but there are still costs associated with coverage. You'll pay a premium for your non-hospital insurance (known as Part B coverage), and maybe additional premiums if you sign up for prescription insurance (Part D), supplemental insurance, or the comprehensive Medicare Advantage option (Part C). You may also pay for co-pays, deductibles and prescription drugs.

According to Medicare estimates, the annual out-of-pocket cost is about \$8,000 for users in good health. However, retirees in poor health or those who previously suffered heart attacks are estimated to pay closer to \$12,000 per year.<sup>3</sup>

## 4 Play catch up.

If you're over 50 and haven't saved enough, you should take advantage of the catch-up limits for retirement accounts. Those over 50 can contribute an additional \$6,000 annually to employer-sponsored plans like 401(k)s, and an additional \$1,000 to IRAs (if your income is below the contribution limit). Visit [www.irs.gov](http://www.irs.gov) or talk to your tax professional about IRA income limits.

## 5 Start trimming expenses now.

Lowering your expenses not only frees up money to save, it also establishes lower ongoing expenses — which means your nest egg will actually last longer. If you're really behind on saving, consider tightening the belt significantly, even if only for a temporary period. When your nest egg is growing and your basic monthly costs are lower, your stress levels will fall too. ✨

<sup>1</sup> [www.wsj.com/articles/the-biggest-surprises-in-retirement-1486955341](http://www.wsj.com/articles/the-biggest-surprises-in-retirement-1486955341)

<sup>2</sup> [www.aarp.org/content/dam/aarp/research/surveys\\_statistics/life-leisure/fantasies-fears-res-life.pdf](http://www.aarp.org/content/dam/aarp/research/surveys_statistics/life-leisure/fantasies-fears-res-life.pdf), page 15

<sup>3</sup> [www.medicare.gov/find-a-plan/staticpages/medigap-out-of-pocket-costs.aspx](http://www.medicare.gov/find-a-plan/staticpages/medigap-out-of-pocket-costs.aspx)

## Regulatory Update: DOL Fiduciary Rule

The first compliance deadline for the Department of Labor's Conflict of Interest or "Fiduciary" Rule was June 9, 2017. The regulations are intended to reduce conflicts of interest that could exist between investors in retirement accounts and certain advisors by requiring more types of advisors to hold themselves to a fiduciary standard, meaning they would have to make recommendations based on what is in the customer's best interest.

At RE Advisers, the company that provides investment management services for Homestead Funds, we have held ourselves to a fiduciary standard since the company's inception in 1990 and we will continue to put clients' interests first and foremost.

If you have a Homestead Funds IRA or other account that is included in the scope of this Rule, you will receive more information from us later this year about the recordkeeping and other procedural steps we are taking to ensure compliance. ✨

## How Do You Feel About Money?

We all have different money stories, but we can share strategies for bringing them to light. For example, if you and a loved one always seem to be on different sides of a financial decision, consider that an opportunity to explore why. There may be important memories coloring those choices about whether to save or spend or to invest conservatively or aggressively.

Use these questions to start investigating how your memories and judgments about money fit into your own financial decisions.

### ➤ My first memory of money is \_\_\_\_\_ .

Reflect on your earliest memories of money. Did you notice that your family had more or less than neighbors? Did you stockpile an allowance or work odd jobs to earn pocket money?

### ➤ My parents thought that wealth was \_\_\_\_\_ .

Perhaps your parents had neutral and logical views about money, or perhaps they were burdened by emotions of their own. Did they push you to earn more? Did they speak with respect or disdain for those who were richer or poorer?

### ➤ I spend more / less than my siblings / neighbors / immediate community.

We can get swept into a “group think” process for spending. If no one in the neighborhood lends or borrows tools, perhaps you feel you have to shop every time you need a different tool. Maybe your children attend a school where teenagers all have their own cars, and that’s the norm. Consider the money values of your immediate community, and how you compare.

### ➤ I made a recent impulse purchase because \_\_\_\_\_ .

One useful exercise to uncover reasons behind your choices is the process of asking “why?” several times. For example: *I grabbed a magazine at the checkout counter. Why? I needed some light reading. Why? It’s been a particularly stressful stretch at work.* Etc. As you run through this exercise, you may begin to see the patterns driving your purchases.

### ➤ The biggest thing preventing me from saving more is \_\_\_\_\_ .

Perhaps you’re the penny pincher type, but most of us have to work hard to save. Consider the reasons you may not be saving enough today, and investigate the stories behind those reasons. You may also want to create a personal cash flow statement. Listing your monthly income and line-item expenses can make it easier to see whether you need to trim spending to free money for investment.

### ➤ How do you feel about your own earnings level and what are your thoughts about those who earn more or less than you?

Money and status are deeply intertwined in our culture. What kind of stories do you have about the level of your own earnings, as well as about those who earn more or less than you?

### ➤ I would / would not enjoy being rich.

For some, “being rich” means being able to spend freely, while others envision that more savings will allow for less stress and more security. But some have negative views of wealth. Perhaps we think of rich people as greedy or ego-driven, or worry that money will corrupt our work ethic. Take a few moments to deconstruct your idea of what it means to be rich, whether you would enjoy that, and why — or why not.

### ➤ My spouse / partner thinks that money is \_\_\_\_\_ .

Understanding your own money feelings is one thing. If you have a spouse or significant other, you’d also benefit from understanding their stories about money. ✨



*“Part of your success as an investor will depend on ‘nuts and bolts’ financial planning decisions. But less-obvious factors — your emotions — also come into play.”*

—Will Cunningham, CFP®

Senior Client Relationship Advisor and Registered Representative

# Our Feelings, by the Numbers

## STRESSED OUT

# 72%

OF AMERICANS REPORTED FEELING STRESSED ABOUT MONEY AT SOME POINT IN THE LAST MONTH<sup>1</sup>



22% rated their money-related stress as “extreme.” Parents and millennials were most likely to report high levels of stress about money.

## EMOTIONAL SPENDERS

# 49%

OF AMERICANS SAY EMOTIONS HAVE LED THEM TO SPEND MORE THAN THEY COULD AFFORD<sup>2</sup>



Stress (29%), excitement (22%) and sadness (13%) were the most frequently cited emotions. Millennials had the highest reported rate of emotion-driven spending, while baby boomers had the lowest rate.

## HAPPY SAVERS

# 84%

OF PEOPLE SAY SAVING MONEY MAKES THEM HAPPY<sup>3</sup>



Having savings (and not having debt) are correlated with being happier overall. In fact, researchers found that the size of someone’s savings account was a much better predictor of their happiness than the size of their paycheck. On a list of healthy habits, only “having good relationships with family and friends” ranked higher than saving money.

## CHOOSE EXPERIENCES

# +16%

HAPPIER WITH AN “EXPERIENCE PURCHASE” THAN A “THING PURCHASE”<sup>4</sup>



In one survey, people considered their purchase of either an *experience* or a *thing* and ranked their happiness on a scale of 1 – 7. Though they predicted a “happiness score” about 34% lower for an experiential purchase, after it was done they actually scored the experience 16% higher on the happiness scale than those who had chosen the thing purchase.

<sup>1</sup> [www.apa.org/news/press/releases/2015/02/money-stress.aspx](http://www.apa.org/news/press/releases/2015/02/money-stress.aspx)

<sup>2</sup> [www.nerdwallet.com/blog/credit-cards/credit-card-debt-stigma-2017/](http://www.nerdwallet.com/blog/credit-cards/credit-card-debt-stigma-2017/)

<sup>3</sup> [www.ally.com/do-it-right/trends/new-ally-bank-survey-links-money-to-happiness/](http://www.ally.com/do-it-right/trends/new-ally-bank-survey-links-money-to-happiness/)

<sup>4</sup> [www.wsj.com/articles/can-money-buy-happiness-heres-what-science-has-to-say-1415569538](http://www.wsj.com/articles/can-money-buy-happiness-heres-what-science-has-to-say-1415569538)

## News Briefs

### Thank You, Cindy!



Homestead Funds' vice president of operations, Cindy Dove, retired this June. Cindy started with our parent organization, NRECA, on July 9, 1985, and was a founding member of Homestead Funds — a part of every fund launch, service enhancement and technology upgrade.

Cindy was a driving force in establishing Homestead Funds' culture of commitment to shareholders and a visionary leader. In a career spanning more than 30 years, she quietly and patiently championed a number of major initiatives that have allowed this small fund company to compete in a landscape dominated by much larger firms.

While friends and colleagues are quick to acknowledge her professional accomplishments, those are not the full measure of Cindy's career. She was dedicated to the advancement of her staff, thoughtful and supportive. Coworker Tonya Moat created a scrapbook of tributes and remembrances from the many staff members she mentored.

Cindy, all of us at Homestead Funds send our best wishes and heartfelt appreciation as you begin a new adventure. ✨

#### Staff Updates

Congratulations to Senior Client Services Associate **Megan McFarland** who earned her Certified Financial Planner™ credential. **Dima Awamleh** has joined Homestead Funds as an institutional client service associate. Dima has over 16 years of marketing and finance experience in the asset management industry. **Makia Tillman** is the newest member of the client services team, filling the role of mutual fund operations specialist.

#### NRECA Conferences

Homestead Funds representatives were in Tampa, FL this May for **CONNECT**, NRECA's national conference for electric cooperative communications, marketing and member service professionals. We're looking forward to the **INTERACT** Conferences this summer, for discussions with benefits administrators and other HR professionals.

#### Homestead Volunteers

Employees took a half day to help Arlingtonians for a Clean Environment mark storm drains to protect the Chesapeake Bay Watershed.



#### Past performance does not guarantee future results.

The views expressed are those of the individuals as of May 19, 2017, 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.

Investing in mutual funds involves risks, including the possible loss of principal.

*Investors are advised to consider fund objectives, risks, charges and expenses before investing. The prospectus contains this and other information and should be read carefully before you invest. To obtain a prospectus, call 800.258.3030 or visit [homesteadfunds.com](http://homesteadfunds.com).*

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.

Homestead Funds' investment advisor, RE Advisers Corporation, and distributor, RE Investment Corporation, are indirect, wholly owned subsidiaries of NRECA. RE Investment, Distributor. 6/17

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