

Our Perspectives: Planning for the Knowns and Unknowns of Retirement

This article was prepared in September 2016 and appeared first in the Q3 2016 issue of *Horizons*, Homestead Funds' quarterly newsletter.

Senior Client Relationship Advisors and Registered Representatives



Will Cunningham, CFP®

Will received a BA from James Madison University and majored in political science. He holds FINRA securities licenses Series 7 (General Securities Representative Exam), Series 63 (Uniform Securities Agent State Law Exam) and Series 65

(Investment Advisor Representative Exam). Will is a Certified Financial Planner™.



Alaina Schragger, CFP®

Alaina received a BS from Virginia Tech and majored in marketing management. She holds FINRA securities licenses Series 6 (Investment Company and Variable Contracts Products Representative Exam), Series 63 (Uniform Securities Agent State Law Exam) and Series 65

(Investment Advisor Representative Exam). Alaina is a Certified Financial Planner™.

“The retirees we work with are able to talk to us about their accounts, their investment options, overall asset allocation and ways to rebalance their portfolio for changing needs.”

— Alaina Schragger, CFP®

Homestead Funds does a lot of work with retirees, giving us a pretty clear view of the challenges investors face. We sat down with our financial planners to talk through the tools and services most important for managing accounts in retirement.

Q: What are the key financial planning decisions for retirees, typically?

ALAINA: Retirees have to work on parallel tracks, in a way. When you're not working, you are most likely going to be taking money out of your accounts — distributions. But retirement could last 20 or more years, so you also need to be thinking about growing your portfolio.

WILL: Yes, and when you combine that with the fact that most retirees can tap income from various sources — employer-sponsored retirement plans, IRAs and Social Security, all with different rules and tax implications — the puzzle gets even more complicated.

Q: So someone who's built a comfortable nest egg can't simply access that money on demand?

WILL: In some cases no, and in some cases yes — but they may not want to. For example, for money held in employer plans, like 401(k)s, there are typically plan rules that govern the frequency of distributions. A retiree may not be able to access his or her money on demand. So, for those unplanned big expenses that could arise — a car repair, a medical bill — retirees will need to be able to tap savings or IRA accounts. And with IRA accounts, even though you have on-demand access to your money, there are tax implications to consider. An investor who would end up with a hefty tax bill or penalties for early withdrawals might want to look at another income source before tapping an IRA. Each investor needs to determine what types of accounts are best for them, based on their own individual circumstances and needs.

ALAINA: Right, and with Social Security — a source of income for most retirees — it may be advantageous to delay receiving benefits. So that's another opportunity to think strategically about the different pools of money you might have access to and the best way to manage those income streams.

Q: And then there are times when distributions from retirement accounts are mandatory, right?

WILL: Yes, the IRS imposes Required Minimum Distributions for Traditional IRA and 401(k) or 403(b) retirement plan accounts. After age 70½, you have to start drawing down those accounts by at least the required amount or there's a hefty penalty: 50 percent of the amount you should have taken but didn't. We send our investors who are 70½ and older a reminder annually and can help with the calculation.

Q: What are the options and considerations for growing retirement accounts? Can distributions be reinvested?

ALAINA: Retirees should consider the role that actively investing, not just drawing down their accounts, can play in retirement planning. Diversifying your portfolio to maintain an appropriate level of exposure to growth investments may be part of this process.

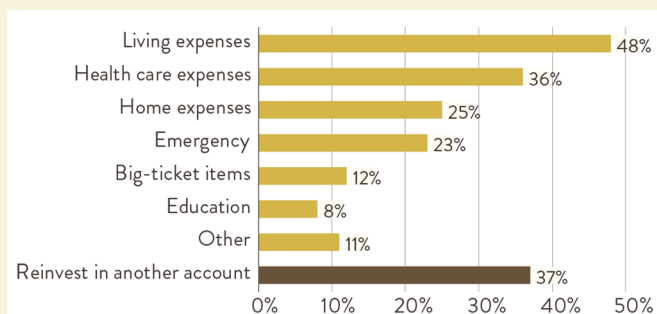
Also, if you are receiving income over and above what you need to cover your living expenses — whether that's from mandatory or scheduled retirement account distributions, an employer pension or Social Security benefits — you can redirect those assets to savings and investment accounts. If you are still working, you may be able to contribute to an IRA if you meet the age or income limits.

Q: What should retirees consider when selecting a financial services partner for their retirement years?

WILL: We think that being able to get guidance about your investment and distribution options is key. The retirees we work with are able to talk to us about their accounts, their investment options, overall asset allocation and ways to rebalance their portfolio for changing needs. We can create a financial plan and review that with them periodically.

Many IRA Investors Reinvest Some of Their IRA Withdrawals

Use of withdrawal, percentage of withdrawing retired traditional IRA-owning households, 2015



Source: Investment Company Institute IRA Owners Survey.

Fee transparency is also important. Advisors have different ways of charging for their services, and you want to be clear about what you will pay for advice and for the investment product.

ALAINA: Access to a range of investment choices that are suitable for your needs is also important. Homestead offers eight different mutual funds, from money market to bonds to stocks, which we believe may offer a wide range of choices for investors. Each investor needs to determine what types of investments suit their needs, based on their own individual circumstances and needs.

Homestead Funds client services team would be happy to talk with you about your goals and current investment program. Give us a call at 800.258.3030.

Investing in mutual funds involves risk, 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 download a pdf at homesteadfunds.com.

Past performance does not guarantee future results.

The views expressed in this market commentary are those of the individual as of the date noted 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.

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 Corporation, Distributor. 4/17

