Homestead Funds' Helpful Tips

# Saving for Education

Next to retirement, education is the most popular savings goal. If you are investing to pay for tuition, consider accounts that offer tax breaks. Two popular education accounts with such tax advantages are the Education Savings Account (also called a Coverdell account) and the UGMA/UTMA account (named for the Uniform Gifts to Minors and Uniform Transfers to Minors Acts). Both types of accounts provide tax benefits to help your savings grow faster. The table inside helps you compare the accounts.

## Compare your options

The choice of which type of account is best for you may depend, in part, on how much you plan to invest and how you'll be making contributions — all at once or over time.

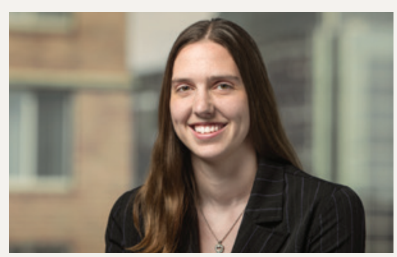
Another important consideration is how much control you think you need over how account dollars are spent. For example, according to IRS rules, money from an Education Savings Account must be used for educational expenses. But that's not the case for assets held in UGMA/UTMA accounts.

## You don't have to be a parent to contribute

Grandparents, aunts, uncles and even nonfamily members can fund an Education Savings Account or UGMA/UTMA account on behalf of a child. Before funding an Education Savings Account, check with the child's parent or guardian to make sure the gift will not exceed the total $2,000 annual limit from all contributors.

## Make sure you consider the impact of financial aid

Money held in an Education Savings Account or UGMA/UTMA account may influence a student's chances to qualify for need-based financial aid or the amount of aid awarded. If you are a nonparent donor to either of these accounts, be sure to discuss your contributions with the family first.



*"One of the most valuable gifts a parent can give a child is a good education. But with tuition costs rising and so many other demands on the family dollar, it's hard to set money aside. Here's some information that helped me plan for my sons' educations. It may help you, too."*

–Megan McFarland, CFP®
Registered Representative

# Two ways to save for education expenses: ESAs and UGMAs/UTMAs

| | Education Savings Account (ESA) | UGMA/UTMA Account |
|---|---|---|
| *How can the money be used* | To pay for elementary and secondary school expenses (kindergarten through grade 12), as well as college expenses. | Must be used for the benefit of the child. Once the child reaches the custody termination age (usually 18 or 21, but varies by state), he/she has control over the account. |
| *Maximum contribution per year* | Total combined contribution from all sources must be no more than $2,000. | Each contributor may invest up to $15,000 (for a single return) or $30,000 (joint return) before triggering the federal gift tax. |
| *Who may contribute* | Anyone can contribute on behalf of a child until he/she reaches age 18.<br><br>**Income restrictions of contributors:** Currently, to be able to make the full contribution, your modified adjusted gross income must be less than $95,000 (single return) or $190,000 (joint return). See IRS Publication 970 for more information. | Anyone can contribute on behalf of a child until he/she reaches the custody termination age (usually 18 or 21, but varies by state). |
| *Tax benefits* | Savings compound tax-deferred and withdrawals are tax-free when used to pay for eligible education expenses. Contributions are not deductible. | For children under age 19, the first $1,100 per year of investment earnings is tax-free; the next $1,100 is taxed at the child's tax rate; and the remainder is taxed at the parent's rate. Contributions are not deductible. |
| *Considerations* | The total contribution of $2,000 a year may not be enough to pay for your child's educational needs.<br><br>If you are the "responsible individual" (typically the parent or guardian), you may change the beneficiary to another family member (under age 30) without penalty.<br><br>Withdrawals for unqualified educational expenses are subject to income tax and a 10% penalty. Generally, money must be withdrawn before the student reaches age 30 or a 10% penalty will apply. | Contributions are an irrevocable gift to the child. You cannot change the beneficiary.<br><br>The child has control over the account with no restrictions on how the money can be spent once he/she reaches the custody termination age. Thus, parents concerned that their adult children may not make the best spending decisions may not find this account an appropriate choice. |

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

*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.*

## Using retirement accounts for educational expenses

The primary purpose of an Individual Retirement Account (IRA) is to accumulate savings for retirement. However, a parent can tap his or her IRA before reaching age 59 ½ and avoid the 10 percent early-withdrawal penalty under certain circumstances. If your IRA distribution is used for qualifying higher education expenses — such as tuition, fees, books and supplies for a qualifying family member — it is not subject to the 10 percent premature distribution penalty.

## Investing for education with Homestead Funds is easy

Invest for the future of a child with a Homestead Funds Education Savings Account or UGMA/UTMA account. It's never too soon to get started. The earlier you begin, the more time your money has to benefit from the power of compounding. Plus, there's no minimum initial deposit if you choose to make regular investments transferred directly from your bank account or paycheck.

Just call us at 800.258.3030 to speak with one of our friendly client services associates and to request a prospectus.

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

# Choose Funds to Match Your Goals

| Your Time Frame | Investment Types and Their Traits | Homestead Funds |
|---|---|---|
| *Short-term:* Less than one year | **Money markets:** Carry lower risk, but typically also give you a lower reward | • Daily Income Fund |
| *Medium-term:* Less than five years | **Bonds:** Carry more risk than money market investments but, in turn, may deliver a higher reward | • Short-Term Government Securities Fund<br>• Short-Term Bond Fund<br>• Intermediate Bond Fund |
| *Long-term:* Five or more years | **Stocks:** Carry higher risk, but over long periods have delivered a higher reward | • Rural America Growth & Income Fund<br>• Stock Index Fund<br>• Value Fund<br>• Growth Fund<br>• Small-Company Stock Fund<br>• International Equity Fund |

*You could lose money by investing in the Daily Income 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. 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. Equity securities generally have greater price volatility than fixed-income securities and are subject to issuer risk and market risk.

Equity securities generally have greater price volatility than fixed-income securities and are subject to issuer risk and market risk. Index funds may hold securities of companies that present risks that an investment adviser researching individual securities might otherwise seek to avoid and are subject to tracking error risk. 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. Growth 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. Securities of small and medium-sized companies tend to be riskier than those of larger companies. International investing involves currency, economic and political risks, which may be greater for investments in emerging and frontier markets.

**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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