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Homestead Funds' Helpful Tips

# Taking Your Required Minimum Distribution

Homestead Funds

Retirement is a significant milestone. After years of saving, you can finally relax and enjoy the fruits of your labor. Whether you're already in retirement or fast approaching it, it's smart to prepare for another milestone: age 70 ½. This is when you must start withdrawing money from most retirement accounts, such as Traditional Individual Retirement Arrangements (IRAs), including rollovers.

Required Minimum Distributions, or RMDs, are mandated by the Internal Revenue Service. After years of postponing taxation, the IRS says it's time to withdraw from the account and pay federal income tax on the withdrawal. If you don't withdraw at least the minimum amount, you will be subject to a tax penalty of 50 percent of the amount you should have taken but didn't. The following "ABCs" of RMDs can help you prepare to take your RMDs and avoid the hefty IRS penalty.

## Paying Uncle Sam back

At age 70 ½, you must begin withdrawing minimum amounts from any account from which you've benefited from pre-tax contributions and tax-deferred earnings, including:

- Traditional IRAs
- Rollover IRAs
- SEP IRAs
- SIMPLE IRAs and Keoghs
- Employer-sponsored plans, such as 401(k)s (both Traditional and Roth)

There are exceptions to the RMD rules. For example, Roth IRAs are not subject to RMD rules. Also, 401(k) plan participants who contribute to their 401(k) account, are working after age 70 ½ and do not own more than 5 percent of the business don't have to take an RMD from that account.

*"Many shareholders are already redeeming enough from their IRA accounts to satisfy their RMD just by taking withdrawals to meet living expenses. But, if you've been deferring distributions and therefore payment of income tax, time may be up.*

*This information can help you plan for your RMD."*

– Keith Ellis
Registered Representative

# Getting it done on time

**Here are the deadlines that generally apply to the retirement accounts mentioned above:**

### Your first RMD

You are subject to RMD requirements beginning the year you turn 70 ½. The IRS gives you two choices: Take your RMD by December 31, or put it off until April 1 of the following year. This option is available for your first RMD only and helps you continue to benefit a little longer from any tax-deferred growth. However, if you delay your RMD, you will be required to take both your first and second RMD in the same tax year, so you should plan accordingly for the additional income tax due.

### RMDs after that

All distributions after the first must be taken by December 31 of a given year.

# How to calculate your RMD amount

Now that you know why you need to take RMDs — and when to take them to avoid the penalty — here's how they're calculated. Your Required Minimum Distribution is determined by your age and your account balance and is based on your distribution period, defined by the IRS life expectancy tables.

To calculate your RMD, combine your IRA balances as of December 31 of the previous year, then divide that amount by the distribution period (See IRS Publication 590 for the Lifetime Expectancy Table, the most commonly used chart to figure mandatory distributions). Inherited IRAs do not follow this calculation method, so it's wise to consult your tax advisor for help determining your RMD in this case.

**EXAMPLE**: Ann, a widow, celebrated her 71st birthday recently. Her IRA account balance was $200,000. According to the IRS life expectancy table, her life expectancy is 16.3 years, so Ann must withdraw $12,269 by year-end to completely satisfy her RMD for the year ($200,000 divided by 16.3 years).

***Make it easy on yourself. Sign up to have Homestead Funds automatically calculate your RMD and distribute it to you each year. Just call us at 800.258.3030.***

# How the deadlines work

**Here are the dates to keep in mind as you plan for your Required Minimum Distribution:**

| APRIL 1 | DECEMBER 31 |
|---|---|
| **If you reach age 70 ½ this year,** take your first distribution by December 31 of this year or defer it to April 1 of next year.<br><br>**If you turned age 70 ½ last year and deferred your distribution,** tax law requires you to take your first RMD by April 1 of this year and your second by December 31 of this year. | **If you're already age 70 ½ and have started taking RMDs,** keep taking them annually by December 31 to avoid a penalty. |

***Take your RMD on time. The IRS penalty for missing the deadline can be costly — up to 50 percent of the amount you should have taken but did not.***

# We can make the process easier

**We can simplify RMDs for any Homestead Funds accounts you own. For example, Homestead Funds can:**

*Calculate your RMD for you.* For Traditional IRAs, we can calculate your RMD upon request. In addition, if you have taken other distributions during the year, we can advise whether those amounts were sufficient to have met the required distribution for the year.

*Remind you of important deadlines.* Each year, we send a reminder letter and distribution form to shareholders age 70 ½ and older. You can use the Required Minimum Distribution Form, or call us toll-free at 800.258.3030, to instruct us to calculate the RMD for your Homestead Funds accounts. We can perform a single annual calculation, or you can instruct us to perform this calculation annually over the life of the account.

*Minimize your paperwork.* If you instruct us to perform the RMD calculation annually over the life of the account, you don't need to submit a new RMD Form each year. Your information stays on file with us.

## Making the most of your RMD

**You don't have to spend your RMD. There are several ways to reinvest this amount. We can help sort through options, including:**

- **Open a taxable account.** Homestead Funds offers a variety of mutual funds to balance your overall investment plan. We can transfer your RMD directly to that account.
- **Fund a legacy.** You may consider starting a Homestead Funds Education Savings Account or UGMA/UTMA for your children, grandchildren or other beneficiaries, or creating a trust for your favorite charity.

For a complete list of Homestead Funds' products and services, visit our website at homesteadfunds.com. If you have more questions, 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
- 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
- Understanding Mutual Fund Costs



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