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: reaching your Required Minimum Distribution (RMD) age. Depending on when you turn age 70 ½, you must start withdrawing money from most retirement accounts — such as Traditional Individual Retirement Arrangements (IRAs) at either age 70 ½ or age 72.

RMDs are mandated by the IRS. 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% 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 or age 72, depending on your date of birth, 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 or age 72 and do not own more than 5% 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

When to Start Taking RMDs

The Setting Every Community Up for Retirement Enhancement (SECURE) Act was passed by Congress in December 2019 and introduced changes to RMD rules for IRA owners. The changes depend on when the IRA owner turns 70 ½. Refer to the chart below to see how the SECURE Act may impact your RMDs:

	If you turn 70 ½ **BEFORE** January 1, 2020	If you turn 70 ½ **ON OR AFTER** January 1, 2020
What age do RMDs begin?	You are subject to RMD requirements beginning the year you turn 70 ½.	You are subject to RMD requirements beginning the year you turn 72.
When is your first RMD due?	The IRS gives you two choices: Take your RMD by December 31 the year you turn 70 ½, 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.	The IRS gives you two choices: Take your RMD by December 31 the year your turn 72, 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.
Subsequent RMDs	All RMDs after the first year must be taken by December 31 of a given year.	All RMDs after the first year must be taken by December 31 of a given year.
Calculating your RMD amount	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 Uniform Lifetime Expectancy Table, the most commonly used chart to figure mandatory distributions). Inherited IRAs do not always follow this calculation method, so it's wise to consult your tax advisor for help determining your RMD in this case.	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 Uniform Lifetime Expectancy Table, the most commonly used chart to figure mandatory distributions). Most 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. Please see below for more details.
Potential Penalties	Take your RMD on time. The IRS penalty for missing the deadline can be costly — up to 50% of the amount you should have taken but did not.	Take your RMD on time. The IRS penalty for missing the deadline can be costly — up to 50% of the amount you should have taken but did not.

continued

	If you turn 70 ½ **BEFORE** January 1, 2020	If you turn 70 ½ **ON OR AFTER** January 1, 2020
Inherited IRA RMD Rules	For IRAs inherited from original owners who passed away *before* January 1, 2020, you will need to take RMDs. This applies to both inherited Traditional IRAs and inherited Roth IRAs. If you inherit an IRA from your spouse, you can choose to put the IRA assets into an IRA in your own name and potentially delay needing to take an RMD.	For IRAs inherited from original owners who passed away on or *after* January 1, 2020, distributions to fully deplete the account generally must be taken within 10 years of the date of death of the account owner. This applies to both inherited Traditional IRAs and inherited Roth IRAs. Exceptions to the 10-year rule include when the beneficiary is: a surviving spouse, a minor child (full distribution required within 10 years of the year in which the child reaches the age of majority), disabled or chronically ill, and/or is less than 10 years younger than the original account owner.

Tax rules can be complex. We recommend you consult with a tax advisor if you meet any of these exceptions.

Take your RMD on time. The IRS penalty for missing the deadline can be costly — up to 50% 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 minimum distribution for the year.

Remind you of important deadlines. Each year, we send a reminder letter and distribution form to shareholders who have reached the RMD age (see chart above for more details). You can use the Traditional/Inherited IRA Required Minimum Distribution (RMD) 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 you sort through options, including:

- **Open a taxable account.** Homestead Funds offers a variety of mutual funds to help with your overall investment plan. We can transfer your RMD directly to that account upon your request.
- **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.

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 Tax Time for Investors
- Understanding Mutual Fund Costs

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