



Our Perspectives: Planning for the Knowns and Unknowns of Retirement

Retirement financial planning can be like solving a complex puzzle, with many moving pieces and strategic considerations. When you're no longer working, you're typically going to be taking money out of your accounts through distributions.

Homestead Advisers does a lot of work with retirees, giving us a pretty clear view of the challenges investors face. The retirees we work with talk to us about their accounts, their investment options, overall asset allocation and ways to rebalance their portfolios for changing needs. Through these conversations, we've created a guide to help investors navigate the knowns and unknowns of retirement planning.

Understanding Retirement Account Access

One common misconception is that once you've built a comfortable nest egg, you can simply access that money on demand. The reality is more nuanced. Different retirement accounts come with different rules and considerations:

- **Employer-sponsored plans** such as 401(k)s often have specific rules governing the frequency of distributions. You might not always be able to withdraw funds exactly when you want.
- **IRA accounts** offer more flexible access but may have higher fees than employer-sponsored plans.
- **Social Security benefits** provide another income stream, and there can be strategic advantages to delaying when you start receiving these benefits.

Medicare Premiums

The more money you take from pre-tax retirement accounts each year whether from employer-sponsored plans or IRAs, the higher your tax bill will be, as each distribution gets added to your income for the year and has the potential to push you into a higher tax bracket.

If you have a higher income, you'll pay an additional premium amount for Medicare Part B and Medicare prescription drug coverage. This is known as the income-related monthly adjustment amount (IRMAA). Social Security uses the most recent federal tax return the IRS provides. If you must pay higher premiums, a sliding scale is used to calculate the adjustments, based on your modified adjusted gross income (MAGI). For more information about what you can expect to pay, please visit ssa.gov.

Required Minimum Distributions

It's important to be aware of Required Minimum Distributions (RMDs) for Traditional IRA and 401(k) or 403(b) retirement plans. Once you reach age 73, you must start drawing down these accounts by a minimum amount. Fail to do so and you'll pay a tax penalty on the amount you should have withdrawn but didn't.

Since retirement could last 20 years or more, you shouldn't just focus on drawing down your savings. You also may want to be thinking about growing your portfolio.

Strategic Investment and Growth

Retirement isn't just about drawing down your savings; it's also about continued strategic investing. Consider these approaches:

- Maintain a diversified portfolio with an appropriate level of exposure to growth investments.
- If you're receiving income beyond your living expenses — whether from retirement account distributions, pensions or Social Security — consider redirecting those assets to savings and investment accounts.
- If you're still working, you may be able to continue contributing to an IRA, depending on your age and income limits.

Choosing a Financial Services Partner

When selecting a financial advisor for your retirement years, consider looking for the following:

1

Guidance and Knowledge: You want a partner who can provide comprehensive advice about:

- Investment options
- Distribution strategies
- Overall asset allocation
- Portfolio rebalancing

2

Fee Transparency: Understand exactly how and what you'll be paying for financial advice and investment products.

3

Investment Flexibility: Seek a partner offering a range of investment choices that can be tailored to your individual needs and circumstances.

Neither asset allocation nor diversification guarantees a profit or protects against a loss. They are methods used to help manage investment risk.

Homestead Funds does not offer legal or tax advice. Please consult the appropriate professional regarding your individual circumstance.

Investing involves risk, including the possible loss of principal. An investment in a mutual fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. *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 homesteadadvisers.com.

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