Horizons

A QUARTERLY NEWSLETTER FROM HOMESTEAD FUNDS

The Retirement Revolution

The average American spends nearly 20 years in retirement — approximately 17 years for men and almost 20 years for women.[1] Newly minted retirees are embarking on a second career that could last longer than their working years but without a regular paycheck.

While working, you receive a steady income with automatic deductions, allowing you to plan spending around predictable earnings. Retirement flips this entirely. Instead of receiving compensation for work, you'll be withdrawing from accounts you've spent decades building.

This shift from earning to spending requires a fundamentally different financial strategy. Your retirement accounts become your employer, paying you from accumulated savings and investment growth. The responsibility for funding decades of non-working years now rests primarily with individuals — through employer-sponsored plans and personal savings — and comes with the challenges of navigating market volatility, health care costs, inflation, and uncertainty about the length of retirement.

With proper planning, this second career can be the most rewarding phase of life. But investors should employ a different strategy at each life stage to avoid common pitfalls that can derail retirement security. In this issue, we'll explore a retirement action plan tailored to different ages and highlight the most common mistakes people make when preparing for retirement.

Your retirement success depends not on luck or market timing but on starting early and following a comprehensive plan that evolves with your changing circumstances. ■

Source note on page 4

YOUR RETIREMENT ACTION PLAN:
Essential Steps for Every Decade

Successful retirement planning isn't about following the same advice throughout your career; it's about taking the right actions at the right time. Each decade of your working life presents unique opportunities and challenges that require specific strategies.

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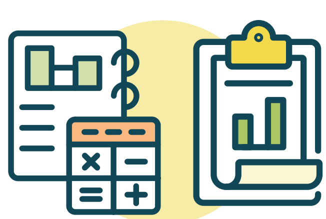
KNOW YOUR NUMBER



52% of workers
52% of retirees
have calculated how much money they will need in retirement

If you haven't yet, you're not alone — and it's easier than you think! Try using an online retirement calculator to get started. Most take only a few minutes to complete, and many let you get started without saving your information.

EBRI, "2024 Retirement Confidence Survey"

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The key to retirement success lies in understanding that your 20s require different financial priorities than your 50s. Here's a decade-by-decade action plan for building a solid retirement foundation, with specific steps tailored for each career stage.

YOUR 20s — Building the Foundation

Your 20s are all about establishing good habits and harnessing the power of time.

- Enroll in your employer's 401(k); contributing even 1%–2% of salary can make a difference.
- Capture the full employer match (it's extra money!).
- Open a Roth IRA for tax-free growth.
- Recognize that you have decades to recover from volatility and consider choosing more aggressive investments.
- Consider rolling over 401(k)s when changing jobs.

KEY FOCUS: *Time is your greatest asset. Small contributions now have the potential to grow substantially over the next 40-plus years.*

YOUR 30s — Accelerating Growth

As your career gains momentum, it's time to increase your retirement contributions while balancing other life goals.

- If you can, increase 401(k) contributions by 1%–2% annually or with each raise, keeping in mind annual contribution limits.
- Try to maximize employer matching across all jobs.
- Consider both Roth and traditional IRA accounts for tax diversification.
- Calculate your retirement "magic number."
- Build emergency savings separate from retirement accounts.

KEY FOCUS: *Balance saving for retirement with other goals, such as homeownership, but don't stop contributing to your retirement accounts.*

YOUR 40s — Peak Saving Years

Most investors reach their highest earning potential and greatest opportunity to boost retirement savings in this decade.

- Aim to have four times your annual salary saved by age 45.
- Maximize 401(k) contributions during peak earning years.
- Ensure your portfolio still aligns with your current needs and timeline.
- Update beneficiary designations after major life changes.
- Consider long-term care insurance.

KEY FOCUS: *This is an ideal time to increase retirement savings, allowing for another 20-plus years of growth.*

YOUR 50s — Catch-Up Time

With retirement on the horizon, this decade is about maximizing contributions and refining your strategy.

- Use catch-up contributions to boost savings.
- Create a clear retirement timeline and transition plan.
- Consider Roth conversions during lower-income years.
- Develop a Social Security claiming strategy.
- Shift toward more conservative investments.

KEY FOCUS: *Fine-tune your plan and make final course corrections.*

YOUR 60s — Transition Planning

As retirement approaches, focus shifts from accumulation to creating sustainable income and preparing for the transition.

- Finalize retirement budget, including health care costs.
- Develop a withdrawal strategy considering taxes and market conditions.
- Understand Medicare enrollment and supplemental insurance.
- Consider part-time work to ease the transition.
- Update estate planning documents.

KEY FOCUS: *Shift from accumulation to preservation and income generation.*

Universal Principles Across All Decades

- Try to avoid borrowing from or cashing out retirement accounts early.
- Contribute consistently regardless of market conditions.
- Invest according to your risk tolerance.
- Stay informed about rule changes affecting retirement planning.

The most successful retirees planned consistently across decades and adapted their strategies as circumstances changed. ■

Important note: *Traditional IRAs offer tax-deductible contributions now but taxed withdrawals later. Roth IRAs use after-tax contributions now for tax-free withdrawals in retirement. A Roth conversion lets you move money from a Traditional IRA to a Roth IRA by paying taxes on the converted amount upfront, potentially benefiting from tax-free growth and withdrawals later.*

Retirement Planning Mistakes That Can Cost You

Even savvy investors can make costly mistakes in retirement planning. These mistakes often seem minor but can have damaging long-term consequences. Here are seven pitfalls to avoid.

Waiting Too Long to Start Saving

The most expensive retirement mistake is simply not starting early enough. Many people in their 20s and 30s believe they have plenty of time to worry about retirement later. This delay costs far more than most realize because it eliminates the most powerful wealth-building tool available: time.

SOLUTION: *Start contributing with your first job, even if it's just $25–$50 per month. Establishing a regular habit of saving matters more than how much you contribute, at least initially.*

Borrowing or Withdrawing from 401(k) Accounts Early

Life happens, and sometimes people face financial emergencies that make 401(k) loans or early withdrawals seem attractive. However, these actions can permanently damage retirement security through penalties, taxes and lost compound growth.

SOLUTION: *Build a separate emergency fund to avoid touching retirement accounts. If you must access 401(k) funds, understand the full cost, including lost growth potential.*

Not Understanding Your Risk Profile

Many investors choose allocations based on fear rather than actual risk tolerance and time horizon. Young workers often choose overly conservative investments, while older workers maintain aggressive allocations too close to retirement.

SOLUTION: *Complete a comprehensive risk assessment that considers both your timeline and risk tolerance.*

Panicking During Market Downturns

Selling investments after major declines locks in losses and often means missing the recovery. This behavior turns temporary market declines into permanent portfolio damage.

SOLUTION: *Develop an investment plan based on your timeline and tolerance and stick to it during volatile market cycles. Consider market downturns as opportunities to buy investments at discounted prices.*

Ignoring Employer Matching

If you don't contribute enough to capture your employer's full match, you're leaving money on the table. Many employers fully or partially match their employees' contributions up to certain limits, increasing the opportunities for savings to grow over time.

SOLUTION: *Consider setting up automatic payroll deductions to capture the full employer match. A "set it and forget it" approach can help ensure you receive this valuable benefit.*

Failing to Plan for Taxes in Retirement

Many assume their tax burden will automatically decrease in retirement, but this isn't always the case. Traditional 401(k) and IRA withdrawals are taxed as ordinary income, potentially pushing retirees into higher tax brackets than anticipated.

SOLUTION: *Work with a tax professional to develop a retirement tax strategy. Consider contributing to both traditional and Roth accounts to create tax flexibility.*

Underestimating Health Care Costs

Health care represents one of the largest and least predictable retirement expenses. Many retirees discover that Medicare doesn't cover everything they expected, and long-term care costs can quickly drain retirement savings. This underestimation can force difficult choices between health and financial well-being.

SOLUTION: *Factor realistic health care costs into planning. Consider opening a Health Savings Account (HSA) as a retirement health care fund and investigate long-term care insurance options.*

The Path Forward

These mistakes don't have to be costly if caught early enough. Regular plan reviews, staying informed about rule changes and seeking professional guidance can help you avoid these errors and stay on track toward retirement goals. ■

Wisdom from Willie Wiredhand

Welcome to Wisdom from Willie Wiredhand, a series featuring NRECA's beloved mascot who offers electrifying financial guidance.

Dear Willie,

I'm 24 and just started my first "real" job. I hear I should contribute enough to my 401(k) to get the full employer match, but I'm also paying off student loans and want to save for a house. Should I really put that much toward retirement when I'm so young? —JUST GETTING STARTED

Dear Just Getting Started,

Your question touches on one of the most important financial decisions you'll make, and I'm glad you're thinking about this at 24!

You possess the most valuable investing asset — time. The key is to use this advantage wisely while balancing your other goals.

Begin with the most important step: If your company offers a 401(k)-matching contribution, contribute enough to capture the full match immediately. It's a valuable gift from your employer.

Don't feel pressured to max out your 401(k) right away. Instead, start with the match, then increase contributions by 1% annually or with each raise. You'll barely notice these gradual increases, but they have the potential to compound over your career.

Once you've secured your employer match, consider opening a Roth IRA to boost your retirement savings. At your age and income, you're likely in a lower tax bracket now than in retirement, making a Roth a smart choice. Even $100 a month starting at age 24 can grow over time thanks to the magic of compound interest.

Every year you delay saving can cost you more than you realize. Your 24-year-old self has a tremendous advantage; use it wisely while still enjoying your young adult years!

—Willie

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Compound interest is the interest earned on both the initial investment and the interest accumulated in previous periods.

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***Source notes** from page 1*

[1] Forbes, "Life Expectancy After Retirement–Here's What To Expect"