

Horizons

A QUARTERLY NEWSLETTER
FROM HOMESTEAD FUNDS

Beyond Tax Season: Your Financial Springboard

Every April, millions of Americans receive a tax refund. In 2025, the average refund check was nearly \$3,000 per household.¹ For many people, that windfall could spark an immediate question: What should I do with this money? Maybe it's finally time for that home improvement project or the vacation you've been dreaming about.

Here's what can often get overlooked in the rush to spend or save that refund check: You've just completed one of the most comprehensive reviews of your finances that you'll do all year. Think about everything you gathered for your tax return — 1099s, investment statements,

mortgage records, and charitable donation receipts. You spent hours compiling a complete picture of your financial situation.

Then, with a sigh of relief, the tax season is over. You file everything away and move on to your next priority. But this year, consider what might happen if you didn't. In this issue, we'll walk you through options to consider when deciding how to put all this valuable financial data to work. We'll also challenge the assumption that the refund you're counting on is actually helping you save. ■

¹ IRS, "Filing season statistics for week ending April 25, 2025"

Three Questions to Consider Before Spending Your Refund



Before that tax refund disappears into everyday spending, pause for a moment. It's important to consider which of your financial priorities deserve your immediate attention.

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HOW AMERICANS SPEND THEIR TAX REFUND



Source: Statista, "Leading ways consumers planned to spend their tax return refund in the United States in 2025"

Using this decision tree, consider three key questions about your financial foundation.



You've received your tax refund



BUILD YOUR FOUNDATION

QUESTION 1: *Have you saved at least three to six months of expenses in an emergency fund?*

YES

Move to Question 2

NO

Financial professionals suggest having three to six months of expenses in an easily accessible emergency fund. Add up your monthly expenditures on necessities, such as housing, utilities, food, insurance, and minimum debt payments, and multiply that figure by three to find your baseline. This safety net can help you manage unexpected expenses before they become financial emergencies.

REDUCE DEBT

QUESTION 2: *Have you paid off high-interest credit card balances?*

YES

Move to Question 3

NO

With the average credit card interest rate hovering around 20%,¹ reducing your revolving debt can deliver immediate relief. For example, carrying a \$3,000 balance at 20% interest can potentially add up to over \$2,000 in interest charges over time — money that could be directed toward building wealth instead.

¹ Source: BankRate, "Current credit card interest rates"

SAVE FOR RETIREMENT

QUESTION 3: *Have you maximized your retirement contributions for last year?*

YES



CONGRATULATIONS —
you're building a
solid financial foundation

Now choose what matters most: saving for a home, education, retirement, or that dream vacation you've been putting off. As you strengthen your financial foundation, these choices may start to feel more like opportunities and less like trade-offs.

NO

If the tax filing deadline hasn't passed, you can still make IRA contributions for the prior tax year. This window closes after the tax deadline, so it's worth exploring now. As a bonus, these contributions may reduce your current tax bill.



SPLITTING YOUR REFUND

Good news! You don't need to choose just one priority. For example, you can split a \$3,000 refund into \$1,000 for your emergency fund, \$1,500 toward credit card debt, and \$500 toward your IRA. The key is to make a conscious decision about how to deploy this money.

NEED HELP WITH YOUR NEXT STEPS? Visit [homesteadadvisers.com/individuals](https://www.homesteadadvisers.com/individuals). ■

The example above is for informational purposes only and does not constitute legal, tax, or accounting advice. Please consult your own financial advisor and other professional advisors regarding your specific circumstances.

Spring into Action: Five Financial Areas to Revisit Yearly

While you have all your financial information in front of you, here are five items worth a closer look:

1

Confirm Your Beneficiary Designations

Life events, such as marriages, divorces, births, and deaths, happen frequently. Yet beneficiary forms often remain unchanged for decades. Here's why this matters: Beneficiary designations typically override your will. That 401(k) you opened years ago? If you never updated the beneficiaries following major life changes, the balance will be transferred to the person listed, regardless of your will's instructions.

ACTION STEP: Log in to each retirement account, insurance policy, and annuity to verify your current beneficiaries. It takes just 10 minutes to review each account and update forms as needed — time well spent that will help prevent potential headaches for your loved ones later.

2

Rebalance Asset Allocations

Over time, your investment mix naturally drifts from your original intentions. If you started with 60% stocks and 40% bonds, a strong stock market might push the proportion held in equities to 75%, significantly increasing your risk exposure beyond your tolerance level.

ACTION STEP: Compare your current investment mix to your target allocation. If you're out of balance by more than five or 10 percentage points, consider manually rebalancing or enabling automatic rebalancing to maintain your chosen risk level.

3

Adjust Contribution Rates

Your tax return shows exactly how much you contributed to retirement accounts last year. Financial advisors often suggest saving 10% to 15% of your income for retirement, including any employer match. If you're off target and your budget allows, now is a good time to adjust your contribution rate.

ACTION STEP: If you contribute less than 10% to 15% of your income to your retirement savings, consider increasing the rate by 1% to 2%. Most people adjust quickly and barely notice the difference in their take-home pay.

4

Assess Insurance Coverages

Insurance needs change as your life evolves. That life insurance policy you bought 10 years ago might not reflect your current income, debts, or family situation. Similarly, your disability insurance, homeowners coverage, and umbrella policy limits may need updating.

ACTION STEP: Review your life and disability insurance coverage against your current income and financial obligations. Verify that your homeowners or renters policy reflects any major purchases or home improvements. If you've recently experienced a significant life event, your coverage likely needs adjustment.

5

Review Tax Withholdings

Receiving a large refund now means you gifted the government with an interest-free loan throughout the year. That \$3,000 refund represents about \$250 per month that could have been working for you. Conversely, if you now owe a large tax bill, you're risking underpayment penalties.

ACTION STEP: Use the IRS withholding calculator at irs.gov to adjust your W-4 form. Aim for break-even or a small amount owed to keep your money working for you throughout the year. ■

QUICK REFERENCE:

YOUR Q1 FINANCIAL CHECKLIST

- ✓ **Review your tax return** and make prior-year IRA contributions, if eligible (before the tax-filing deadline).
- ✓ **Verify beneficiary designations** on all retirement and insurance accounts.
- ✓ **Check your retirement account asset allocations** and rebalance if they are off target by more than 5% to 10%.
- ✓ **Adjust W-4 withholding** and set up or increase automated contributions.
- ✓ **Review your emergency fund** (target: three to six months of expenses) and insurance coverage.
- ✓ **Schedule** quarterly (not daily) account reviews.
- ✓ **Review your required minimum distributions** for the coming year, if applicable.

Rebalancing can entail transaction costs and tax consequences that should be considered when determining a rebalancing strategy.

Please see page 4 for important disclosures.

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 usually get a tax refund of around \$3,000. My wife tells me I should adjust my withholding so we can use that money throughout the year, but honestly, I love getting that big check! It feels like a windfall of money. If we got an extra \$250 each month instead, I know we'd just spend it on groceries or gas and never save anything. Isn't the refund actually helping us save? — LOVES TAX SEASON

Dear Loves Tax Season,

I understand the appeal. That refund feels special in a way your paycheck never does. Researchers call it "mental accounting": We treat money differently based on where it comes from.

Your wife is onto something, though. You can capture that windfall feeling and put your money to work all year. The key is automation.

Right now, that \$3,000 sits with the IRS earning nothing. Your concern about spending an extra \$250 monthly is valid — but only if you see that money sitting in your checking account.

Here's a better approach: Adjust your withholding and then set up an automatic monthly contribution of \$250 into your 401(k) through payroll deduction. The money never touches your checking account, so you don't risk spending it. Within months, you'll barely notice.

That \$3,000 spread across 12 monthly investments compounds all year. Here's the best part: Investors who maintain steady contributions often outperform those trying to time the market.

Want a compromise? Consider adjusting your withholding to account for a \$500 refund and setting up automatic monthly contributions for the rest. You'll keep your April "bonus" while letting your money work for you year-round.

Remember, the secret to building real wealth is to automate the important decisions.

—Willie

Do you have a question for Willie? Email it to invest@homesteadfunds.com, and maybe we will feature it in a future newsletter!

The views expressed are those of the individuals as of February 2, 2026, and may have changed since that date.

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