



Homestead Funds'

helpful tips

Deciding What to Do with your 401(k)

When you leave your job or retire, you have to decide what to do with the money in your current employer's retirement plan. You worked hard to accumulate this nest egg. It may even be your most significant financial asset. So, you want to make your decision carefully. This brochure offers you some guidance as you go about making up your mind. *(For tax-specific information, consult your tax professional.)*

How can Homestead Funds help?

Homestead Funds offers a variety of account types, including a Rollover IRA. Rolling over your 401(k) to a Homestead Funds IRA is just one of several options available to you. Read on for more information.

I talk to many people leaving their jobs or approaching retirement who aren't sure what to do with their 401(k) accounts. I lay out all the options. I think this information will help you make a choice, too.



Will Cunningham, Homestead Funds' Client Service Associate

You can trust Homestead Funds because **you already know us**—we're part of the NRECA family. Homestead Funds was created in 1990 to provide NRECA members with professional and affordable money management. Call us at 1-800-258-3030.

You have four main choices for distribution

For most plan participants, there are four main options for your 401(k) account:

- 1) Leave your 401(k) money where it is,
- 2) Roll over your 401(k) money to an IRA,
- 3) Transfer your 401(k) money to your new employer's 401(k) plan, or
- 4) Withdraw all your 401(k) assets now (as a cash distribution).

Of course, each of these options has advantages and disadvantages to consider. On the opposite page is a table that helps list out the pros and cons of each choice. When considering your choices, keep in mind your own situation and your specific needs to find out what works best for you.

Interested in rolling over to a Homestead Funds Roth IRA?

Recent changes to the law allow you to roll over your 401(k) directly into a Homestead Funds Roth IRA. In 2009, this conversion opportunity was available only to people with adjusted gross income of \$100,000 or less. For 2010, the \$100,000 ceiling on conversions to a Roth IRA was removed.

Taxable amounts in the 401(k) must be reported as taxable income for the year of the direct rollover to the Roth IRA. The IRS allows the taxpayer the following two options for the taxable income for 2010 Roth conversions only:

- Recognize the income for tax year 2010 and pay taxes for the entire taxable amount of the conversion; or
- Defer recognition of the income and tax liability and spread the income taxes due on the conversion over tax years 2011 and 2012.

Four Options for your 401(k)

There are both advantages and disadvantages to each of the options listed below for your 401(k) account. Use this table to help weigh which option may be best for you.

1 Leave your 401(k) money where it is

ADVANTAGES

- ▶ Your money continues to compound tax-deferred until withdrawal.
- ▶ Your account is not depleted by payment of income tax or a premature distribution penalty.
- ▶ You already know the investment choices.

DISADVANTAGES

- ▶ This may not be an option. NRECA's 401(k) Pension Plan allows you to leave your money in the plan (provided your balance is at least \$1,000), but not all employer plans permit this.
- ▶ You may have limited access to your money.
- ▶ If you take a distribution from the plan prior to age 59½, you may face a 10% penalty. Exception: participants who terminate employment at or after age 55 are exempt from the premature distribution penalty.

2 Roll over your 401(k) money to an IRA

- ▶ Your money continues to compound tax-deferred until withdrawal.
- ▶ Your account is not depleted by payment of income tax or a premature distribution penalty.
- ▶ You can consolidate other Rollover IRA accounts into one account to simplify your retirement savings.
- ▶ You may be able to use these savings penalty-free, if taking an early distribution for education or the first-time purchase of a home.

- ▶ If you take a distribution from your IRA prior to age 59½, you may face a 10% penalty.

3 Transfer your 401(k) money to your new employer's 401(k) plan

- ▶ Your money continues to compound tax-deferred until withdrawal.
- ▶ Your account is not depleted by payment of income tax or a premature distribution penalty.

- ▶ You may not be eligible for the plan right away.
- ▶ Investment choices may be limited.
- ▶ You may have limited access to your money.

4 Withdraw all of your 401(k) assets now (cash distribution)

- ▶ You can use the cash for immediate needs.

- ▶ Your money loses its tax-deferred status.
- ▶ Your distribution is subject to mandatory income tax withholding (20%, but your actual tax due may be more or less) and may be subject to a premature distribution penalty (10%) if you are below age 55.
- ▶ You may not have the money you need to support yourself in retirement.

This table does not address your options for a Roth 401(k) or Roth IRA.

Also, for years before 2010, a married taxpayer cannot convert a plan account via direct rollover to a Roth IRA unless he or she files a joint tax return. Beginning in 2010, the rule against conversions by people who are married filing separately no longer applies.

Is a Rollover IRA right for you?

Besides the advantages shown, consider these benefits of rolling your money to an IRA:

You control access to your money. You can withdraw assets from your IRA at any time. Distributions are taxable as income and, if you are under age 59½, you may face a 10% IRS penalty. You must start taking money from your IRA soon after you turn age 70.

Investment choice. Moving your 401(k) account to a Rollover IRA can give you more investment choices. If you roll over to Homestead Funds, the options are similar to NRECA's options. So, if you like your current investment mix, it's easy to duplicate that at Homestead Funds. The same investment professionals who oversee the investment options offered by the 401(k) Pension Plan also manage the Homestead Funds.

Rolling over to Homestead Funds is easy

We make it easy for you to move your 401(k) account to a Homestead Funds Rollover IRA.

Just call us at 1-800-258-3030 to speak with one of our friendly client service 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!**

For a complimentary fact sheet about any of the following topics, download them from our website at www.homesteadfunds.com, or call one of our friendly associates at **1-800-258-3030**:

- ▶ Building your retirement savings
- ▶ Saving for education
- ▶ Simplifying account management
- ▶ Understanding mutual fund costs
- ▶ Handling investment risk
- ▶ Simplifying tax time for investors
- ▶ Taking your required minimum distribution
- ▶ Managing your savings in retirement