



Homestead
Funds

Deferred Compensation Plans

for Employees
and Directors

AN OVERVIEW FOR
TAXABLE CO-OPS



Deferred Compensation Plans Overview

Attracting and retaining top talent who drive your co-op's strategic direction, operational effectiveness and bottom-line success requires a competitive approach to compensation.

A nonqualified deferred compensation plan can be an effective, flexible and low-cost part of your executive compensation strategy. Nonqualified plans are sponsored by the co-op and are not subject to many of the requirements of the Employee Retirement Income Security Act (ERISA). Participation must be limited to a select group of management or highly compensated employees and/or the co-op's board of directors. Any assets set aside to pay the benefits under the plans are owned by the co-op until distributed and are subject to any claims by the co-op's creditors.

With the right design and implementation, a nonqualified plan can help your co-op achieve its business objectives by attracting, retaining and rewarding talented leadership. Homestead's Deferred Compensation Program team can help your co-op select and implement a plan and support your role as plan administrator.



A CLOSER LOOK

at Homestead's Deferred Compensation Plans Available to Taxable Co-ops

When to Implement a TOP HAT PLAN:

- To recruit and retain leadership and/or personnel in positions critical to the co-op's success
- To attract new talent with industry experience in a competitive job market
- To provide executives with a way to defer taxation on their current compensation
- To supplement retirement income through tax-deferred saving and investment diversification
- To provide eligible employees who receive 401(k) plan contribution refunds due to IRS and/or ERISA rules another option for tax-deferred savings
- To allow the board of directors to establish certain conditions for performance-based compensation to be paid
- For director plans, to allow board members to defer per diem compensation

When to Implement an EXECUTIVE BENEFIT RESTORATION PLAN:

- To supplement and/or restore benefits provided through the Retirement Security (RS) Plan or other defined benefit plan for executives whose retirement benefits may be adversely affected by IRS salary limits and/or ERISA rules
- To maintain or "keep whole" retirement benefits offered by a prior employer for mid- and late-career executives joining the co-op
- To provide supplemental retirement benefits for executives who do not qualify for the RS Plan
- In situations where determining supplemental retirement benefits requires actuarial calculations or projections

Deferred Compensation Plans for Taxable Cooperatives

This chart provides a side-by-side comparison of the deferred compensation plan options available to taxable co-ops with key plan provisions.

PLAN PROVISIONS	PLAN TYPES	
	TOP HAT PLAN	EXECUTIVE BENEFIT RESTORATION PLAN
Purpose	To allow eligible employees to defer additional compensation to supplement benefits from qualified deferred compensation plans, and to earn supplemental compensation if specific performance goals are met within a specific time period	To allow eligible co-op employers to provide supplemental benefits to employees with qualified plan restrictions
Director Plans	Yes	No
Participant Salary Deferrals	Yes	No
Effect on Qualified Benefits	Participant deferrals to the plan may reduce salary for qualified benefit purposes	No impact
Annual Contribution Limits	Participant limited to 100% of salary; no employer contribution limit	No contribution limits
Catch-up Provisions	No	No
Employer Contributions	Allowed but not required	Yes
Risks to Participants	Subject to creditors	Subject to creditors
Distribution Options	Single cash payment and/or installment payments	Single cash payment and/or installment payments
Required Minimum Distributions	No	No
Subject to IRC §409A*	Yes	Yes

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

*Effective on January 1, 2005, IRC Section 409A applies to compensation that workers earn in one year but that is not paid until a future year. This is referred to as nonqualified deferred compensation; however, Section 409A does not apply to qualified plans, such as 401(k) plans, and certain nonqualified plans, such as 457(b) plans. Visit [IRS.gov](https://www.irs.gov) for additional information.

Closing the Retirement Savings Gap

Deferred compensation plans help high-income earners meet their retirement savings goals. As salaries increase, the percentage of replacement income that Social Security and other qualified retirement plan benefits provide decreases. This illustration shows how the retirement savings gap increases for higher-paid executives and employees as their compensation grows. Deferred compensation plans offer a way to assist in closing the gap.

RETIREMENT INCOME	INCOME REPLACEMENT RATE		
	From savings	From Social Security	TOTAL
\$50,000	45%	35%	80%
\$100,000	45%	27%	72%
\$200,000	45%	16%	61%
\$300,000	44%	11%	55%

Source: Fidelity Investments

Homestead's Deferred Compensation Program Team Can Assist Your Co-op

At Homestead we have a knowledgeable Deferred Compensation Program team that specializes in serving the complex needs of rural electric co-ops. We offer comprehensive consulting services for deferred compensation programs designed with your co-op in mind. RE Advisers provides supporting services for an annual fee based on a consulting services agreement.

We welcome the opportunity to share our knowledge of industry trends and best practices. For more information, contact the Deferred Compensation Program team at deferredcomp@homesteadfunds.com or call **703.907.6375**.

Hundreds of cooperatives around the country sponsor executive deferred compensation plans.

Important: Homestead offers nonqualified deferred compensation plans as an additional service to members for their employees and directors and provides certain administrative support services; however, Homestead does not sponsor or act as the plan administrator of these plans, assume liability for their operation, or provide legal or tax advice in conjunction with the plans. Employers and participants are responsible for any tax or legal consequences associated with their adoption, operation or participation in nonqualified deferred compensation plans.

Investing in mutual funds involves risk, including the possible loss of principal. **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 homesteadfunds.com.

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