Homestead
Advisers

Executive Compensation 457(b) Plan

SETTING UP FUTURE PAYMENTS FOR EMPLOYEES AND DIRECTORS

These instructions have been prepared to assist with the administration of your co-op's Executive Compensation Deferred Compensation 457(b) Plan.

Prospective participants should be encouraged to consult an attorney or personal tax advisor to develop a tax strategy before electing their form of payment or taking any other action with respect to their participation in a nonqualified deferred compensation plan.

Retain the original, signed copies of each participant's payment election form(s) in the co-op's records, as the U.S. Department of Labor may request copies.

If you have any questions, please contact the Homestead Advisers Deferred Compensation team at deferredcomp@homesteadadvisers.com.

IMPORTANT: Homestead Advisers offers nonqualified deferred compensation plans as an additional service to members for their employees and directors and provides certain administrative support services; however, Homestead Advisers 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. Co-ops and participants are responsible for any tax or legal consequences associated with their adoption, operation or participation in nonqualified deferred compensation plans.

Setting Up Future Payments for the Executive Compensation 457(b) Plan for Employees and Directors

Distribution Timing

Distributions will be made in accordance with the options and terms currently in effect for your co-op's plan, and in accordance with the participant's payment election form on file with your co-op. When they enroll in the plan, participants indicate both of the following:

a) When the distribution will be received
b) In what form the distribution will be paid

Participants may make changes to the payment election form up until their last day of employment. Once participants have submitted a payment election form, they have two opportunities to delay the start of payments:

1) No later than 30 days following the last day of service, participants may choose to delay the distribution by submitting a revised payment election form [please confirm that this option exists in your plan document].
2) One additional opportunity to delay the distribution can be made by written election not less than 30 days prior to the date payments are scheduled to begin.

Refer to your plan document, as your co-op may have elected a different set of distribution rules. It is important for participants to consider the timing and form of distribution from the Executive Compensation 457(b) Plan relative to other company benefit plans, personal investments and Social Security benefits. Participants should consult their own tax or financial advisors before taking any action with respect to personal investments and benefits.

Benefits under the Executive Compensation 457(b) Plan are payable to participants under the following circumstances:

- Severance from service (e.g., retirement, separation or termination)
- In the event of an unforeseeable emergency
- Allowed once participant attains age 70½
- In the event of a qualified domestic relations order
- As of the date an employee is determined to be disabled (not applicable to directors)
- Upon the participant's death, to the designated beneficiary

Forms of Payment

Benefits may be paid out as:

- A single-sum, cash payment
- A series of installment payments
- A combination of a single-sum, cash payment and a series of installments
- An in-kind transfer (treated as a single-sum distribution for tax purposes

Always confirm the options available in your co-op's plan document.

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Because the Homestead Funds accounts are the property of the co-op until paid, the co-op must request the distribution. When payments are due, the individual designated by the cooperative as its "authorized representative" Homestead Funds to request a distribution.

Participants determine the time and form of distributions when they enroll in the plan by submitting their payment election form. Distributions will be made in accordance with the options and terms currently in effect for the co-op's Executive Compensation 457(b) Plan.

Initiating a Distribution

To initiate a distribution from the plan, the co-op's authorized representative will:

- Review the participant's current payment election form, which indicates how benefits are to be paid.
- Contact Homestead Funds request a redemption form. The co-op will complete and submit this form according to the participant's elections.
- The distribution amount will be sent to the co-op and should be deposited in an appropriate co-op account. The co-op will then issue a check for the distribution to the plan participant (or beneficiary).

Tax Treatment of Distributions

Refer to the "IRS Forms W-2 and 1099 Guidance for Employers with Nonqualified Deferred Compensation Plans" document for guidance regarding the requirements for preparing Internal Revenue Service (IRS) forms W-2 and 1099 for employees and directors participating in your co-op's nonqualified deferred compensation plans.

The IRS (and state agencies) are quite strict regarding the differences between a W-2 employee and a 1099 contractor/director, and penalties may be levied for incorrect classification. This document is a general primer and not intended to be all-inclusive. All co-ops should obtain guidance from their tax, accounting and legal advisors before taking action with respect to these forms.

Because plans providing full and immediate vesting are not subject to a substantial risk of forfeiture, the contributions are subject to Federal Insurance Contributions Act (FICA) and Federal Unemployment Taxes Act (FUTA) taxes at the time of deferral, and the amounts subsequently paid to the participant at the time of distribution are generally not subject to FICA/FUTA taxes. Because tax regulations change from time to time, co-ops should consult their own legal and tax advisors before taking any action.

Important Points to Consider

- *Changing Distributions:* Participants use the payment election form to indicate the time and form of payments. Once benefit payments have begun, the choices made are irrevocable and no further changes may be made to their elections.

- *Life Expectancy:* The number of installment payments that can be elected under this plan may not exceed the plan participant's life expectancy under the Single Life Table published by the IRS.

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- *Required Minimum Distributions:* This plan is subject to required minimum distribution rules established by the IRS. Required minimum distributions are minimum amounts that participants must withdraw annually starting with the year that they reach 72 years of age (or 70.5 if your plan document has not been updated to reflect age 72) or, if later, the year in which they retire. Generally, distributions must be withdrawn by December 31 of each tax year. Participants should check with the co-op for additional details on how initial and ongoing required minimum distributions are handled. Failure to take a withdrawal of at least that amount could result in a penalty equal to 50% of the difference between the required minimum distribution amount and any amount distributed from a participant's Homestead Funds account.

- *Unforeseeable Emergencies:* An unforeseeable emergency is defined as a severe financial hardship for the participant or beneficiary resulting from:
    - An illness or accident experienced by the participant or beneficiary, his or her spouse, or dependents
    - Property loss due to casualty or some other extraordinary or unforeseeable circumstance arising from events beyond the control of the participant or beneficiary
    - Funeral expenses of the participant's spouse or dependent
    - Other similar extraordinary and unforeseeable circumstances beyond the control of the participant or beneficiary

  The criteria for an unforeseeable emergency are more restrictive than the IRS rules for hardship distributions, which apply to 401(k) plans. Participants seeking unforeseeable emergency distributions must show that emergency expenses could not otherwise be covered by insurance, liquidation of the participant's assets or cessation of deferrals under the plan. For additional information, benefits administrators can go online to the irs.gov website.

- *Unfunded Plans:* As a nonqualified deferred compensation plan, the Executive Compensation 457(b) Plan must be unfunded, remaining an asset of the co-op until paid and subject to the demands of general creditors in the event of insolvency of the business in order to avoid the imposition of the Employee Retirement Income Security Act of 1974 requirements. Plan participants are considered unsecured, general creditors of the co-op. The co-op contractually promises to pay the plan benefit to individual participants at a later date, such as at retirement or separation from service, or to designated beneficiaries upon the death of a participant. Prospective plan participants should seek guidance from their personal financial or tax advisors before electing to participate.