



Homestead
Advisers

Deferred Compensation Plans

for Employees
and Directors

AN OVERVIEW FOR
TAX-EXEMPT 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 Advisers' 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 Advisers' Deferred Compensation Plans Available to Tax-Exempt Co-ops

When to Implement an EXECUTIVE COMPENSATION 457(B) PLAN:

- To provide executives with a way to defer taxation on their current compensation
- To supplement retirement income through tax-deferred saving
- 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 provide a vehicle for supplemental 401(k) matching or other discretionary employer contributions
- 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/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

When to Implement a PERFORMANCE INCENTIVE 457(F) PLAN:

- To provide compensation incentives for key executives, managers and highly compensated employees based on specific performance goals
- To allow the board of directors to establish certain conditions that must be met in order for performance-based compensation to be paid
- To recruit and retain leadership and/or personnel in positions critical to co-op success
- To attract new talent with industry experience in a competitive job market

Deferred Compensation Plans for Tax-Exempt Co-ops

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


PLAN PROVISIONS	PLAN TYPES		
	EXECUTIVE COMPENSATION 457(B) PLAN*	EXECUTIVE BENEFIT RESTORATION PLAN	PERFORMANCE INCENTIVE 457(F) PLAN
Purpose	To allow eligible employees to defer additional compensation and to supplement benefits from qualified retirement plans	To allow eligible co-op employers to provide supplemental benefits to employees with restrictions on their qualified retirement benefits	To allow eligible employers to provide supplemental compensation to employees who meet specific performance goals within a specific time period
Director Plans	Yes	No	No
Participant Salary Deferrals	Yes	No	No
Annual Contribution Limits	Subject to annual IRS limits, including both employee and employer contributions	No contribution limits	No contribution limits
Catch-up Provisions	Special 3-year catch-up	No	No
Employer Contributions	Allowed but not required	Yes	Yes
Risks to Participants	Subject to creditors	Subject to creditors and substantial risk of forfeiture	Subject to creditors and substantial risk of forfeiture
Distribution Options	Single cash payment and/or installment payments	Single cash payment	Single cash payment
Required Minimum Distributions	Yes	No	No

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

*Effective on January 1, 2005, Internal Revenue Code 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

As salaries increase, the percentage of replacement income that Social Security and other qualified retirement plans 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 close the gap.

INCOME REPLACEMENT RATE 

RETIREMENT INCOME	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%

This is for illustrative purposes only, which can change at any time.
Source: Fidelity Investments

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

At Homestead Advisers we have a knowledgeable Deferred Compensation Program team that specializes in serving the complex needs of member rural electric co-ops. We offer comprehensive consulting services for deferred compensation programs designed with your co-op in mind. Homestead 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@homesteadadvisers.com or call 703.907.6375.

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

Important: Homestead Advisers offers nonqualified deferred compensation plans as an additional service for a fee 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. Employers and participants are responsible for any tax or legal consequences associated with their adoption, operation or participation in nonqualified deferred compensation plans.

Investing 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.

Homestead Advisers serves individuals, communities and cooperatives within the NRECA family. Homestead Advisers provides a range of investment advisory services, including financial planning, and also serves as the investment adviser for the Homestead Funds. Homestead Advisers and Homestead Financial Services are indirect, wholly owned subsidiaries of the National Rural Electric Cooperative Association (NRECA).

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