Homestead Advisers

Executive Benefit Restoration Plan for Employees of Tax-Exempt Co-ops

Salary and benefit limitations imposed by the IRS on qualified defined benefit and defined contribution plans can make it difficult for higher-income employees to fully replace their preretirement income stream. One way to assist in closing this “retirement income gap” is to implement a custom-designed Executive Benefit Restoration (EBR) Plan to restore, supplement or replace qualified plan retirement benefits limited by IRS rules or other factors.

Designing and Implementing a Plan to Meet Your Co-op’s Needs

Co-ops have a great deal of flexibility when designing an EBR Plan to address specific business or senior management retention needs. Adaptable plan design options allow co-ops to implement plans that can help meet any of the following objectives:

- Fully or partially restoring benefits lost or limited by qualified plans because of the IRS salary or benefit limits
- Providing benefits for executives ineligible for the Retirement Security (RS) Plan or other qualified retirement plan(s)
- Attracting mid-career hires
- Retaining a select group of executives by providing enhanced compensation at a predetermined future date

Flexibility for Your Co-op as the Plan Sponsor

Each co-op is the sponsor and administrator of its own EBR Plan. Homestead Advisers supports your co-op with services including plan design, actuarial calculations and ongoing consulting guidance.

Eligibility: Eligibility for an EBR Plan is limited to a select group of management or highly compensated employees.

Plan Design: When designing the plan, your co-op chooses the benefit amount by deciding to supplement or restore a portion or all of the benefits limited by the qualified retirement plans. For example, the co-op may want to provide supplemental retirement benefits for an executive who does not qualify for the RS Plan and/or replace an RS benefit limited by IRS restrictions. In situations where determining supplemental retirement benefits requires actuarial calculations or projections, Homestead Advisers works with NRECA to provide those services.

Paying Benefits: The co-op has the option to set aside assets toward the estimated benefit amount based on its unique needs and objectives. The options can include a “defined benefit” or “defined contribution” approach.

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Defined Benefit Approach*

- The co-op defines the benefit formula and assumptions to be used for the final benefit calculation at the participant's vesting date. This amount is not known until the participant's high-5 average salary and vesting date year interest rates are available.
- The co-op can elect to set aside assets toward this projected amount.
- The participant receives the promised benefit amount payable at initial vesting date (and, if still employed, subsequent years thereafter) in the form of a single-sum cash taxable payment.

Defined Contribution Approach

- The co-op sets a benefit amount (typically based on an expected range of actuarial values), and the co-op board and participant agree on an annual contribution amount to be set aside.
- The participant or co-op manages the investment of the Homestead Funds account contributions.
- The participant receives a benefit equal to the Homestead Funds account value (reflecting market performance) payable at initial and subsequent vesting dates in the form of a single-sum cash taxable payment. The co-op may set a floor or ceiling amount for the final benefit value.

**The defined benefit approach typically requires an accounting disclosure report for auditors. Homestead Advisers can provide these reports as well as actuarial projections for either funding approach for an additional fee.*

Services Provided by Homestead Advisers Deferred Compensation Team

At Homestead Advisers, we have a knowledgeable deferred compensation team that specializes in serving the unique and complex needs of NRECA member rural electric co-ops. We offer contractually defined consulting services for a reasonable annual fee.

Our services include:

- Consulting on plan design, implementation and administration
- Accounting disclosure reporting (if needed)
- Actuarial calculations
- Sample documents for plan administration
- Sample participant forms and plan education materials

For more information, contact the Homestead Advisers Deferred Compensation team by email at deferredcomp@homesteadadvisers.com or by phone at 703.907.6375.

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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. Districts 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. An investment in a mutual fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

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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