

YOUR CO-OP LOGO HERE

# Top Hat Plan for Employees and Directors

A GUIDE FOR  
PARTICIPANTS



# Welcome

Congratulations. As a highly valued contributor to your co-op, you've been selected for eligibility in the Top Hat Plan. Highly compensated employees may find it challenging to meet future retirement goals by relying solely on Social Security and qualified retirement plans. The Top Hat Plan provides the opportunity to supplement retirement savings by deferring part of your current income for long-term growth and earnings. Many factors go into deciding whether to participate, but once you are familiar with the plan's benefits and are ready to enroll, it's as easy as completing and submitting your deferral election and payment election forms.

## TABLE OF CONTENTS

- 3 Plan Overview
- 3 Eligibility and Enrolling in the Plan
- 4 Making Deferral Elections
- 4 Annual Contribution Limits
- 5 Choosing the Time and Form of Payment
- 5 Setting Up a Homestead Funds Account and Selecting the Investments
- 6 Distribution Rules and Process
- 7 Tax Treatment of Distributions
- 8 Important Points to Consider

**DISCLAIMER:** This material provides a summary of Top Hat Plan benefits available to eligible employees. In the event there are any inconsistencies between what is written here and the actual provisions of your plan, the plan document shall govern. This guide does not create a contract or guarantee of employment between the plan sponsor and any individual.

## Plan Overview

The Top Hat Plan is a nonqualified deferred compensation (NQDC) plan that is maintained by the co-op primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees. Such plans are exempt from most of the requirements of the Employee Retirement Income Security Act of 1974 (ERISA), which gives co-ops flexibility in developing plans specific to their business needs. The Top Hat Plan allows you to defer additional compensation and related income taxes, beyond the Internal Revenue Service (IRS) limits for qualified retirement plans, such as 401(k) plans.

The Top Hat Plan provides an opportunity to elect the deferral amounts and payment terms that best meet your personal needs. If you elect to participate in the Top Hat Plan, you designate a portion of your compensation to be deferred on a pre-tax basis and put into a Homestead Funds account — *owned by the co-op* — for your benefit. In addition to the benefits of deferring current income, your Homestead Funds account could achieve further tax-deferred growth through investment gains.

You will receive distributions in the future according to your payment election and plan provisions. Typically, you will receive the deferred compensation adjusted for earnings and losses after you are no longer providing services to your co-op. You will owe tax on those distributions as ordinary income at the time of payment, similar to how your salary is taxed.

### Eligibility and Enrolling in the Plan

You are eligible to participate in the co-op's:

- **Top Hat Plan for Employees** if you fall within a select group of management or highly compensated key employees
- **Top Hat Plan for Directors** if you are a member of the board of directors



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

## Making Deferral Elections

To participate in the plan, use the *Deferral Election Form* to specify the percentage of pay (or per diem for directors) or dollar amount you choose to defer annually. An election to defer compensation is **irrevocable** during any calendar year in which it is in effect.

**If you are a newly eligible employee or director**, you may elect to participate in the Top Hat Plan within the first 30 days of eligibility by submitting a written election to defer compensation in the same year. In some cases, elections to defer bonuses can be made as late as

six months prior to the end of the performance period, if the performance period is at least 12 months. After the initial period of eligibility ends, you still may enroll in the plan but your deferral elections will not go into effect until January 1 of the following year.

**IMPORTANT:** Your initial election remains in effect from year to year unless you submit changes in writing to your plan administrator.

### POTENTIAL IMPACT ON YOUR RETIREMENT SECURITY OR 401(K) PENSION PLAN BENEFITS

Your deferrals to the Top Hat Plan may reduce the annual compensation amount used to calculate your Retirement Security Plan accruals and any employer contributions to the 401(k) Plan (if applicable).

## Annual Contribution Limits



There is no dollar limit on the amount of compensation (including salary, bonus and/or per diem amounts) you may defer into the Top Hat Plan. You may defer up to 100% of the taxable income you receive from your co-op. You are always fully vested in your own elective deferrals and any related earnings.

You are not required to make deferrals in any given year. Your co-op has the option to make discretionary employer contributions in addition to, or sometimes in place of, employee salary deferrals to the Top Hat Plan. Your co-op's contributions to the Top Hat Plan may be subject to a vesting provision. For example, a plan may require that the co-op's contributions and related investment earnings be forfeited if a participant fails to work for the employer for a specified number of years or before a specified age.

## Choosing the Time and Form of Payment

You must choose the time and form of your benefit payments within 30 days of when you begin participating in the Top Hat Plan. Internal Revenue Code section 409A allows participants to make a subsequent election (also called a re-deferral) to change the time and form of a distribution election subject to the "1-year/5-year rule." Please request and review the co-op's *Rules for Making Changes to the Time and Form of Payment for Top Hat and Global Executive Compensation Plans*.

To change your initial payment election, you must submit a revised Payment Election Form to your benefits administrator indicating your revised election.

The 1-year/5-year rule applies to any changes in the timing and form of payment. A valid re-deferral requires that:

1. You are still employed by the co-op for at least 12 months from the date you submit your subsequent written election.
2. The first payment must be delayed at least five years from the date of the originally scheduled payment.
3. For payments to be made at a specific time or according to a fixed schedule, the change must be made at least 12 months before you are scheduled to receive the first payment.

**IMPORTANT:** Making any change to the time or form of payments will delay payment for at least five years from the date on which the payment otherwise would have been made under the initial election.

---

## Setting Up a Homestead Funds Account and Selecting the Investments

Your investment provider is Homestead Funds. Homestead offers a range of investment options including stock, bond and money market mutual funds. Your co-op will set-up an account for your benefit and, if elected by your co-op, you will decide how to allocate the assets among the available investment options. As with any investment, you will want to consider your financial goals, risk tolerance, time horizon, diversification and other investments. Please note that while you may control the investment decisions, the co-op owns the account until the benefits are paid to you. This means you may not send personal checks or transfer any other assets into the account, or take loans or write checks from the account.

Neither asset allocation nor diversification guarantees a profit or protects against a loss. They are methods used to help manage investment risk.



## Distribution Rules and Process

Distributions will be made to you in accordance with the options and terms of your co-op's plan, based on your most recent payment election form.

It is important to consider the timing and form of distribution(s) from the Top Hat Plan relative to other company benefit plans, personal investments and Social Security benefits. You should consult your own tax or financial advisors before taking any action with respect to your investments and benefits.

Benefits under the plan are payable to you by the co-op when one of the following qualifying events happens:

- Separation from service (retirement or termination)
- Disability leading to a severance from service
- In the event of an unforeseeable emergency
- Qualified domestic relations order
- Upon your death, to your designated beneficiary(ies)

Due to IRS rules, neither you nor the co-op can voluntarily accelerate the timing or amount of payments except in limited circumstances. Please refer to the "Unforeseeable Emergencies" section for additional details.

Distributions may be paid out as one of the following:

- A single-sum cash payment
- A series of installments
- A single-sum cash payment plus a series of installments
- An in-kind transfer (which will be taxed as a single-sum cash payment)

Unless stated in the plan document, there is no limit on the number of installment payments you can receive. If no payment election is made, the Homestead Funds account will be paid as a lump sum within 60 days of termination of employment or the default distribution timing stated in your plan document. Because the accounts are the property of the co-op until paid, the co-op must request any distributions from the investment company. When payments are due, the individual designated by the co-op as its authorized representative will contact the investment company on your behalf to request distributions.

Please consult your plan document to verify your distribution options.



## Tax Treatment of Distributions

Distributions under the Top Hat Plan are taxed in the year the participant receives the distribution.

**FOR EMPLOYEES:** As an employee, you will owe ordinary income taxes when you receive distributions (including in-kind transfers) of the deferred amounts plus any interest or earnings credited to your Homestead Funds account in the Top Hat Plan. Even though you may be retired, local, state and federal tax withholding applies, and distributions will be reported as taxable income on your Form W-2 as follows:

- **Box 1:** Wages, tips and other compensation
- **Box 11:** Nonqualified plans
- **Box 16:** State wages, tips, etc. (if applicable)
- **Box 18:** Local wages, tips, etc. (if applicable)

Because your salary deferrals to the Top Hat Plan are fully and immediately vested and are not subject to a substantial risk of forfeiture, your contributions to the plan are subject to Federal Insurance Contributions Act (FICA) taxes (i.e., Social Security and Medicare) at the time of deferral. The amounts paid to you later generally are not subject to FICA taxes at the time of distribution.

**FOR DIRECTORS:** As a director, you are considered an independent contractor (not an employee) who provides services for your co-op; therefore, the co-op doesn't withhold taxes from your deferrals or your payments. Your IRS Form 1099 will not reflect your deferrals to the plan; however, you will receive an IRS Form 1099-NEC for each year that you receive a distribution from the plan. The distributions are reported as nonemployee compensation on your IRS Form 1099-NEC in boxes 1 and 7 (if applicable for state tax).

**IMPORTANT:** Because tax regulations change from time to time and vary from state to state, you should consult your tax advisor about the implications of taking any distribution(s) from the plan.

### **Potential Impact on Your Social Security Benefits:**

You should check with a tax professional before starting distributions of your deferred compensation to be certain of the effect on your Social Security benefits.

### **Potential Impact on Your Retirement Security or 401(k) Pension Plan Benefits:**

Your deferrals to the Top Hat Plan may reduce the annual compensation amount used to calculate your Retirement Security Plan accruals and any employer contributions to the 401(k) Plan (if applicable).



## Important Points to Consider

- **Unforeseeable Emergencies:** An unforeseeable emergency is defined as a severe financial hardship for you or your designated beneficiary resulting from one of the following:
  - An illness or accident experienced by you or your beneficiary, your spouse or dependents
  - Property loss due to casualty or some other extraordinary or unforeseeable circumstance arising from events beyond the control of you or your beneficiary
  - Funeral expenses of your spouse or dependent(s)
  - Other similar extraordinary and unforeseeable circumstances beyond the control of you or your beneficiary
- **Unfunded Plans:** As an NQDC plan, the Top Hat Plan is unfunded and an asset of the co-op until paid to you. It is subject to the demands of general creditors in the event of the co-op's insolvency. As a plan participant, you are considered an unsecured general creditor of the co-op. The co-op contractually promises to pay the plan benefit to you at a later date such as at retirement or separation from service, or to your beneficiaries upon your death. You should seek guidance from your personal financial or tax advisor before electing to participate.
- **No Early Distribution Penalties:** Distributions received from Top Hat plans are not subject to the penalties that may apply to early distributions from retirement plans, such as 401(k) plans.
- **Required Minimum Distributions:** None

If you are seeking unforeseeable emergency distributions, you must show that emergency expenses could not otherwise be covered by insurance, liquidation of your assets or cessation of your deferrals under the Top Hat Plan.

**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. Employers and participants are responsible for any tax or legal consequences associated with their adoption, operation or participation in nonqualified deferred compensation plans.

All Investing 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](http://homesteadfunds.com).***

Homestead Funds' investment adviser and/or administrator, Homestead Advisers Corp., is an SEC-registered investment adviser. Homestead Funds are distributed by Homestead Financial Services Corp. Homestead Advisers Corp. and Homestead Financial Services Corp. receive compensation from the Homestead Funds for serving in these roles. Homestead Advisers Corp. and Homestead Financial Services Corp. are indirect, wholly owned subsidiaries of the National Rural Electric Cooperative Association (NRECA). 12/24