



# Performance Incentive 457(f) Plan


## SAMPLE INDIVIDUAL TERMS, AGREEMENT AND HIGHLIGHTS

**These samples of a cover letter, individual terms and participation agreement, and plan highlights have been prepared to assist with the administration of your co-op's Performance Incentive 457(f) Plan for Employees.**

 **IMPORTANT:** These documents must be completed by the co-op and eligible plan participants at the time of enrollment in the plan. It is the responsibility of the co-op as the plan administrator to verify plan and participant eligibility.

The information set forth in these sample plan documents does not constitute legal advice. Prospective participants should 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 the board resolution to adopt and the plan document 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](mailto: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.*

# Performance Incentive 457(f) Deferred Compensation Plan

## SAMPLE: COVER LETTER

[Month Date, Year]

Dear [Name];

Congratulations! You have been selected to participate in the Performance Incentive 457(f) Deferred Compensation Plan. The board of directors values your contributions to the co-op and realizes that your work is important to the success of the organization.

This plan is a deferred compensation plan sponsored by the co-op and designed to award additional compensation to a select group of management or highly compensated employees upon completion of specific, individualized plan terms.

Attached, you will find the terms for your participation in the plan and selected plan highlights. Please become familiar with the plan and your specific terms for participation.

To participate in the plan, please sign and return the original copy of the Individual Plan Terms and Participation Agreement Form. Keep a copy of the agreement for your personal records.

We look forward to your continued success at [co-op name].

If you have any questions about the plan, please contact [Name] at ext. [XXXX].

Sincerely,

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[Name, Title]

# Performance Incentive 457(f) Deferred Compensation Plan

## SAMPLE: INDIVIDUAL PLAN TERMS AND PARTICIPATION AGREEMENT

*Participant's Name:* \_\_\_\_\_

**Description of Benefit.** The benefits provided to [insert participant name] under the plan shall be [insert description of benefits].

**Vesting or Performance Goal.** The benefits described above shall vest either on the following date or on the occurrence or nonoccurrence of the following performance goal:

[Date of grant of compensation]

[Initial date of plan participation]

[Insert vesting schedule or performance goal — *Note: The initial vesting date must be at least 24 months following the initial date of plan participation.*]

**Payment.** Payment of the respective vested amount shall be payable in a single-sum cash payment, net of standard taxes and applicable deductions, and occur as soon as administratively practicable after the respective vesting date or date on which the performance goal is met. In any event, payment of the vested amount(s) shall occur no later than 2½ months after the last date of the calendar year (i.e., March 15).

**Risk of Forfeiture.** The deferred compensation benefit provided is subject to a substantial risk of forfeiture. Any unvested benefit shall be forfeited if the participant is not a full-time employee of [co-op name] as of the vesting date, provided, however, that forfeiture shall not occur if the termination of the participant's employment with the co-op is caused by death or disability.

By signing this document, you acknowledge receipt of this Participation Agreement and confirm you understand the terms, provisions and conditions thereof. Additionally, you acknowledge your understanding that participation in this Plan is voluntary and that this Participation Agreement does not constitute a guarantee of continuing employment for any term.

\_\_\_\_\_  
*Participant Signature*

\_\_\_\_\_  
*Effective Date*

\_\_\_\_\_  
*Approval: [Name, Title]*

\_\_\_\_\_  
*Date*

# Performance Incentive 457(f) Deferred Compensation Plan

## SAMPLE: PLAN HIGHLIGHTS

The following is an overview of the Performance Incentive 457(f) Deferred Compensation Plan (plan).

### **Plan Overview**

The Performance Incentive 457(f) Compensation Plan allows your co-op to make pre-tax contributions for your benefit to supplement other employee benefits. As a plan participant, payment of benefits under the plan is contingent on the performance of substantial services in the future or on the occurrence (or nonoccurrence) of a given performance goal. If these conditions are not met, the compensation is forfeited. When property is no longer subject to a substantial risk of forfeiture, it is usually said to have "vested."

Vested benefits are payable according to the Individual Plan Terms and Participant Agreement and the Timing and Form of Payment provisions of the Plan Document.

### **Risk of Benefit Forfeiture by Participant**

Benefits under this plan are subject to a substantial risk of forfeiture and will be forfeited in their entirety if your employment ends prior to the vesting date or you fail to meet the specified service or performance goals.

### **Designating a Beneficiary**

You may name a beneficiary for the plan. In the event of your death, the distribution will be made as a single-sum cash payment. If you make beneficiary changes in the future, the most recently executed form naming a beneficiary will apply.

### **Tax Treatment of Distributions**

At the time you become vested in a portion of your plan benefits, taxes are owed on the vested amount. Generally, vesting occurs when your rights to the benefit are no longer conditioned upon the future performance of substantial services or a specific date. Please note: This could result in you owing tax in a year other than the year prior to the year in which the benefits are paid.

Tax withholding will be reflected in all payments made to you under the plan and will be reported on IRS Form W-2.

You may transfer distributions into a regular taxable account, but they cannot be rolled over to an Individual Retirement Account (IRA), 401(k) plan or other tax-deferred account. You are encouraged to consult with your financial or tax advisor prior to distribution to develop a tax strategy.

### **Important Considerations**

As a nonqualified deferred compensation plan, the plan is unfunded, is an asset of the co-op until you receive distributions and is subject to the demands of general creditors in the event of your 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 under the terms of the participation agreement, or to your beneficiaries upon your death. You should seek guidance from your personal financial or tax advisor before electing to participate.