

Short-Term Incentive and Retention Program for Participants — FAQs

This FAQ is provided as a helpful guide. To the extent any of these terms conflict with the definitions in the Program document, the Program document controls in all cases.

“Program” means the Short-Term Incentive and Retention Program.

“Program Document” means the sample Program Document provided by Homestead Advisers.

“Participant” means an employee enrolled in the Program.

“Bonus Award” means the bonus award grant designated by the Co-op for a Participant.

Plan Establishment and Administration

1. Is this categorized as a deferred compensation plan?

This is designed be a short-term deferral program for purposes of section 409A.

2. How is the Program different from the other deferred compensation plans offered by Homestead Advisers?

- Only a select group of management or highly compensated employees are eligible for most of our deferred compensation plans. The Program can be established and designed for any level of employee.
- Deferred compensation plans allow for longer vesting schedules or Participants are always vested. The Program requires the vesting schedule be no longer than five years for each Bonus Award.
- The Program is not subject to certain Code and regulatory requirements that may be applicable to other deferred compensation plans offered by Homestead.

3. Is there any regulatory reporting on the co-ops part that is specific to this Program?

There is no Program specific reporting.

4. Is the Program tied to salary?

The Program is not tied to a participant’s salary and does not affect their existing benefits.

5. Is the Bonus Award included in the calculation of NRECA 401k or RS Plan discrimination testing?

It depends on your plan’s definition of Compensation. The NRECA plans that use a Full Salary definition do include bonus awards for purposes of nondiscrimination testing.

6. Is the Program a retirement plan/do you have to be of retirement age to withdraw funds?

No. The Program is not a retirement plan. The vesting date governs when assets must be withdrawn, not age of participant, and payment must be paid within specified time frames.

7. Can we offer the Program to any employee/job title?

Yes, there are no restrictions on the type or level of employee that may participate. Participants must be employees under the Program and not contractors.

Short-Term Incentive and Retention Program for Participants — FAQs

8. Can different job roles have different bonus structures (CEO vs. Lineman)? If so, do they need separate documentation for each?

Yes, the Co-op can maintain different Bonus Award structures. The Co-op can establish one Program Document and differentiate the eligibility, performance metrics (if applicable) and vesting conditions for each job group in the Appendix section of the Program Document.

9. Who administers the program? Ex. Who is responsible for keeping track of vesting dates etc.

The Co-op is responsible for Program administration, including tracking on all participants, vesting dates, bonus award amounts, account numbers, ensuring that the payments are made timely, etc. The responsible individual is typically in the Human Resources or Finance department.

10. Does the Program need board approval?

This is usually dependent on whether the CEO needs board approval for employee salary and compensation. Also, if the program is for the CEO, then board approval is most likely needed.

11. How long does the Program take to set up?

This is dependent on the complexity of the Program, attorney review, and board approval. It could be less than one month for a straightforward Program or two to three months for the more complex.

12. Who can sign the Program Document?

Typically, the CEO executes the document.

13. Can we extend the Program after five years?

All Bonus Awards must be vested and distributed within five years of investment. If the program allows for subsequent Bonus Awards grants, then the Program can be extended for a time as determined by the Program Document. For example, you could have an incentive program that issues Bonus Awards annually with a three-year vesting term. As long as each year's Bonus Award is distributed by the three-year vesting date, you could maintain one Homestead Funds account with annual Bonus Award investments and distributions.

14. Is the growth earned in the account the Co-op's or Participants?

All accounts are invested in the Daily Income Fund and distributions to the Participant include all earnings.

15. What happens to the funds if the Participant leaves voluntarily or otherwise?

Generally, if the Participant does not meet the terms of the agreement or reach their vesting date, they forfeit the assets. If that happens Homestead Funds can distribute the assets back to the Co-op. However, there are a few exceptions. The account becomes fully vested upon the occurrence of the following events:

- Death of the Participant while an employee
- Disability of the Participant while an employee
- Involuntary termination without cause

Short-Term Incentive and Retention Program for Participants — FAQs

16. Can beneficiaries be named to the Program?

Yes, beneficiary designations will be maintained by the Co-op. A Participant may designate a Beneficiary or Beneficiaries, and modify that designation, at any time. In the event a Participant fails to designate a Beneficiary, or the Beneficiary (and any contingent Beneficiaries) predecease the Participant, the Participant's Beneficiary shall be the Participant's spouse if the Participant is married at the time of death, and the Participant's estate if the Participant is not married. The Co-op may provide the [Sample Beneficiary Form](#) to Participants to designate beneficiaries.

17. What does Homestead charge/what is the fee?

Homestead Advisers does not charge a fee to provide the Program. The assets are invested in the Daily Income Fund which does charge an expense ratio. This percentage is deducted from total fund assets annually to cover operating costs.

Account Establishment and Distributions

1. How do Co-ops open the Homestead Funds accounts?

- Complete one [Short-Term Incentive and Retention Program for Employees Application](#) per employee signed by the Authorized Employer Representative.
- If you have multiple employees and would like to reduce data entry, you may complete one application total (complete the application but leave section 4 blank), signed by the Authorized Employer Representative, and accompanied by the *Incentive Retention Program Employee Information* spreadsheet that you may obtain from your Relationship Manager.
- Complete one [Authorized Cooperative/Employer Representative Form](#).
- Mail the original documents together to the address on the application.

2. How do Co-ops fund the Homestead Funds accounts?

- Once the accounts are open, we will provide the account numbers to you so you can fund them.
- To fund the accounts, please review the [Employer Instructions to Submit Funds Form](#).
- If you are sending a check for funding, please also include a [Group Purchase Form](#)

3. Do Participants have any visibility into their Bonus Award amount while it's invested?

Yes, Homestead Funds will send a duplicate statement to the Participant on a quarterly basis.

4. When do payments need to be made?

If the Bonus Award is dependent on the achievement of an annual performance goal, any cash portion of the earned Award will be paid within 60 days of the final performance metrics calculations and generally no later than 2 ½ months following the end of the performance year. If the Bonus Award is not tied to an annual performance goal, payment must occur at vesting and the payment should be made as soon as is administratively practicable after the vesting date.

5. Upon vesting, how do we get the assets to the Participant?

The Co-op submits the [Distribution Form](#) to request the distribution. Once the monies are distributed to the co-op it would be treated as income to the Participant with the co-op administering the appropriate tax withholding for purposes of W-2 reporting.

Short-Term Incentive and Retention Program for Participants — FAQs

6. At vesting, do the funds get distributed by check or moved to the Participant's Homestead Funds account?

Homestead Funds can accommodate both scenarios. Typically, if the Participant wants to be paid out, we will issue a check or ACH to the Co-op. If the Participant wants to move assets to their Homestead Funds account, the Co-op will request a percentage to be sent to the Co-op for tax withholding, and the remaining to be transferred to the Participant's Homestead Funds account. The Participant's account must be established prior to requesting the distribution. Our [Distribution Form](#) will guide you through the options.

7. At what point does the Participant open their own Homestead Funds account to transfer their vested assets to?

If Participants are planning on transferring their vested assets to their own Homestead Funds account, they will need to establish the account at least a few days prior to vesting. This can easily be done [online](#). The cooperative will need the participant's account number to complete the [Distribution Form](#).

8. Are the Bonus Awards taxable?

- Bonus Awards and any earnings are taxable to the participant as income upon distribution.
- When a Participant reaches vesting with respect to all or part of the Participant's account and that amount is distributed to the Co-op, the Co-op may withhold an amount necessary to satisfy applicable federal, state, or local income tax withholding.

9. What are the investment options while funds are in the Co-op's name and before it vests?

Assets must be invested in the Daily Income Fund only.

Past performance does not guarantee future results. Investing in any mutual fund, including the Homestead 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.*

Before investing in any Homestead Fund, you should carefully consider the fund's investment objectives, risks, charges and expenses before investing. The prospectus contains this and other information about each of the Homestead Funds and should be read carefully before investing. To obtain a prospectus, call 800.258.3030 or visit [homesteadadvisers.com](#).

As a money market fund, the Daily Income Fund has limited potential for income production. *You could lose money by investing in the Fund. Although the Fund seeks to preserve the value of your investment at \$1.00 per share, it cannot guarantee it will do so. An investment in the Fund is not a bank account and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The Fund's sponsor is not required to reimburse the Fund for losses, and you should not expect that the sponsor will provide financial support to the Fund at any time, including during periods of market stress.*

Homestead Advisers offers the Short-Term Incentive and Retention Program as an additional service to Co-ops for their employees and provides certain administrative support services; however, Homestead Advisers or Homestead Funds does not sponsor or act as the plan administrator of these Programs, assume liability for their operation, or provide legal or tax advice in conjunction with the Programs. Employers and participants are responsible for any tax or legal consequences associated with their adoption, operation or participation in the Short-Term Incentive and Retention Program.

Homestead offers non-qualified 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 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 non-qualified deferred compensation plans.

Short-Term Incentive and Retention Program for Participants — FAQs

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