PORAC RETIREE MEDICAL TRUST

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RETIREE MEDICAL TRUST

Serving PORAC Members Since 2008

- BENEFITS DESIGNED TO LAST FOR A LIFETIME
- COVERS PREMIUMS & MEDICAL EXPENSES
- RUN BY PORAC MEMBERS
- AVAILABLE TO POLICE & FIRE ASSOCIATIONS IN ALL 50 STATES
- COVERS COPAYS & DEDUCTIBLES
- TRIPLE TAX-FREE PLAN
- NON-TAXABLE REIMBURSEMENTS
- SURVIVING SPOUSE BENEFITS

2022 FAQs Bulletin

PORAC RETIREE MEDICAL TRUST
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FREQUENTLY ASKED QUESTIONS

-NOVEMBER 2021 -

These Frequently Asked Questions (FAQs) contain important information about the PORAC Retiree Medical Trust (the "Trust"). The purpose of these FAQs is to answer common questions about the "Medical Expense Reimbursement Plan (the "Plan") of the Trust. These FAQs will give you a general outline of the operation and structure of the Plan and Trust.

IMPORTANT NOTE: These FAQs do not provide all the details and limitations of the Plan. Exact specifications are provided in the formal "Medical Expense Reimbursement Plan of the PORAC Retiree Medical Trust," restated ef. 12-1-2019, which will prevail in case of conflict with these FAQs. You may request a copy of the most up-to-date Plan document or the "Summary Plan Description" from the Trust Office; see Part A(3) below for contact information.

PART A: INTRODUCTION TO THE PORAC RETIREE MEDICAL TRUST

1) What is the PORAC Retiree Medical Trust? The PORAC Retiree Medical Trust is a funding vehicle in which to deposit money while you are working, to pay for medical expenses after you retire, pursuant to the rules of the Plan. Any PORAC member Association may choose, as a bargaining unit (through collective bargaining), to join the Trust. (You cannot choose to join as an individual; it must be through bargaining by your Association.)

Note regarding new hires: An Association may bargain that only hires after a certain date will participate in the Trust, e.g., every employee hired after January 1, 2017. That is, although there can be no individual employee choice to join the Trust, an Association may bargain that a certain *defined class of employees* will participate in the RMT. That may help in situations where your employer cut off retiree health benefits after a certain date.

2) Why should my Association join the Trust? Your Association should consider joining the PORAC Retiree Medical Trust as part of the solution to the problem of rising health care costs, especially during retirement, and budget strains on cities and counties. (Also, see Part E, Tax and Pooling Advantages.)

3) Whom should I contact with questions regarding the Trust? You should contact the Trust Office, or any Trustee (see Part F2), with questions regarding the Trust, e.g., if your Association is interested in joining the Trust or if you have any questions regarding benefits from the Trust:

PORAC Retiree Medical Trust
c/o Ms. Suzan Kolb
Phone: (877) 808-5994 * Email: PORAC@vimly.com * Website: PORACRMT.org

PART B: BENEFITS AND PARTICIPATION AT A GLANCE

1) What types of benefits are available from the Trust? The Trust provides reimbursement benefits toward the cost of post-retirement "Covered Expenses" paid by participants, on or after the date the participant becomes an Eligible Retiree under the Plan. "Covered Expenses" include the following:

- ❖ Premium or contribution payments for coverage under health, dental, vision and long term care insurance plans, along with prescriptions.
- ❖ Medical expenses excludable from gross income under Internal Revenue Code Section 213(d), i.e., costs for diagnosis, cure, mitigation, treatment, or prevention of disease or injury, including co-pays and deductibles.

You may contact the Trust Office, or visit www.irs.gov to see IRS Publication 502 for more details on Covered Expenses. Generally, any medical expense that would be deductible under Internal Revenue Code Sec. 213(d) is allowed as a Covered Expense.

3) Who can participate in the Trust? An individual can participate in the Trust if he/she is a member of a bargaining unit that is a member Association of PORAC, which has bargained to participate in the Trust; and the individual is employed in a classification covered by a MOU, which provides for participation in the Trust. This includes Associations outside of California, if they join PORAC.

PART C: ELIGIBILITY FOR MONTHLY BENEFITS FROM THE TRUST

(Note: the rules in this Part C are for the regular monthly benefits; they do not apply to Employee Account benefits from the Trust, which are discussed below in Part D.)

1) How does a participant become eligible for monthly reimbursement benefits? A participant becomes eligible for monthly reimbursement benefit payments generally after: a) the participant has earned 10 years of Active Service in the Plan (or five years for an individual already employed when his/her bargaining unit joins the Trust); b) the Trust has received monthly Contributions for all years of Active Service earned by the participant; c) the Participant has attained age 55; and d) the participant has ceased all employment (including part time or post-retirement contract work) with any participating employer of this Trust.

2) When will monthly benefits commence? Monthly reimbursement benefit payments commence after retirement, assuming the participant meets the eligibility rules in Part C1.

3) How is the monthly benefit level calculated?

- ❖ **What is an Active Service Unit (ASU)?** An Active Service Unit (ASU) is a factor used to calculate the monthly benefit level for an Eligible Retiree. The Trust will credit a participant with one ASU for each $50 contribution that the Trust has received on the participant's behalf over the duration of his/her career. For example, if the participant's Association has negotiated a monthly contribution of $150, he/she will receive 3 ASUs for each monthly contribution.

- **What is the Unit Multiplier?** The Unit Multiplier is a factor that the Trust uses to calculate benefit levels. From time to time, the Trustees, with the help of a professional actuary, will determine the value of the Unit Multiplier, which is based on demographic and financial data.

- **How is the Eligible Retiree's "benefit level" calculated?** An Eligible Retiree's "benefit level" is the maximum amount that he/she may receive in monthly reimbursement benefits from the Trust. The benefit level for each Eligible Retiree is calculated by multiplying the total number of ASUs he/she has accumulated by the Unit Multiplier, currently $0.77. The benefit level will change from time to time. See Attachment A for sample benefit level calculations.

4) Does the Trust provide benefits to participants who will retire before earning 10 years of Active Service? Yes, for a participant who retires before earning the required 10 years (or 5 years, if applicable; see Part C1), the Trust will credit his/her contributions to an Employee Account in the Trust, and he/she will be entitled to reimbursement of medical expenses up to the amount in his/her Employee Account. See Part D.

5) How long will monthly benefits from the Trust last? It is the Trustees' intent, and the Plan is designed so that monthly reimbursement benefit payments for Eligible Retirees will last until death. However, this is not guaranteed, and the Trustees will have the authority to reduce or terminate benefits earlier, if prudent, to preserve the soundness of the Plan for all of the participants. In any event, all contributions and earnings in the Trust may be spent only on benefits and administrative expenses, as required by federal law.

6) What happens to a participant's monthly benefits upon death? Are there survivor's benefits? Yes, the Plan includes monthly reimbursement benefit payments to the Surviving Spouse (at 50%) and Children (as defined in the Plan) of an Eligible Retiree. However, if the Surviving Spouse has surviving Children in the household, the monthly benefit level will be 100% of the Eligible Retiree's monthly benefit level.

Note: The Trustees have the authority to modify these benefit rules or terminate benefits at any time, if prudent, to preserve the financial health of the Plan for all participants.

PART D: EMPLOYEE ACCOUNT BENEFITS

(Note: the rules in this Part are for the Employee Account benefits; they do not apply to regular monthly benefits from the Trust, which are discussed above in Part C.)

1) What benefits are offered by an Employee Account? The expenses covered from an Employee Account are the same as for the monthly lifetime benefits, i.e., reimbursement of "Covered Expenses" (see Part B). However, there are two important differences:

- The claim can be in any amount up to the amount in the Employee Account; and
- Claims are paid only until the Employee Account balance is exhausted (not for lifetime).

2) Can a participant receive <u>both</u> monthly reimbursement benefits and Employee Account benefits? Yes, a participant may receive both monthly reimbursement benefits and Employee Account benefits if the participant has met the eligibility requirements for monthly benefits, and, also has elected to deposit sick/vacation leave into an Employee Account, or otherwise has an Employee Account.

3) What happens to Employee Account benefits upon the death of a participant? In the event of death, a Surviving Spouse may utilize the deceased participant's Employee Account funds to pay for covered medical expenses until the balance reaches zero.

Possible forfeiture. Note: if there is no Surviving Spouse, then the balance of the Employee Account is divided equally among all Children (as defined in the Plan) for reimbursement of Covered Expenses. If there are no Children, then it forfeits to the Trust.

PART E: TAX and POOLING ADVANTAGES

1) What are the tax advantages of the Plan? The Trustees have structured the Plan to obtain three separate tax breaks:

- ❖Neither employer contributions or employee contributions to the Trust are taxable income to you;
- ❖The Trust itself will accrue earnings on a non-taxable basis (which increases your benefits); and
- ❖Your benefit payments from the Trust will not be taxed when you receive them.

This is better tax treatment than a pension plan (e.g., CalPERS) or your deferred compensation 457 plan. Benefits from those plans are taxed upon receipt, after you retire. But the benefits Eligible Retirees receive from this Retiree Medical Trust, to reimburse them for medical expenses after they retire, will not be taxable income.

2) What are the advantages of a pooled account over an individual Employee Account system? The Trust is generally designed so that contributions are held and invested collectively in a "pooled account." (The Trust provides the individual Employee Accounts (discussed in Part D) for limited purposes.) There are certain advantages to pooling funds, including:

- ❖**Higher investment assumption is reasonable.** This Trust is different than an individual "Health Savings Account" ("HSA"). This Trust invests the pooled account on a long-term time horizon. The Trustees do not move the investments in a pooled account to a more conservative earnings assumption as a given retiree ages, since the pool is always gaining more funding, and does not have a limited life span. Contrast that to a retiree over age 55 with an individual account and no more funding, who generally moves to a more conservative investment portfolio as he/she ages. Actuarial studies clearly demonstrate that this plan design produces greater aggregate benefits to beneficiaries.
- ❖**Lifetime benefit payments.** The pooled part of the Plan is designed to provide a monthly stream of benefit payments for the retiree's lifetime,[1] plus a continuing benefit payment stream to the Surviving Spouse during retirement years, until his or her death. This will become very important in a retiree's later years, when an individual account HSA might run out.

PART F: LEGAL STRUCTURE AND GOVERNANCE

[1] The Plan is designed to provide monthly reimbursement benefits to Eligible Retirees until death. However, benefits from the Trust are not vested, and the Trustees reserve the right to modify and/or terminate benefits as necessary to preserve the financial soundness of the Trust.

1) What is the legal structure of the Plan? Plan assets will be held in the PORAC Retiree Medical Trust, which is a legally separate entity from PORAC, the participating Associations, or employers. The Trust is controlled and administered by a Board of Trustees, composed of peace officer members from PORAC member Associations.

2) Who is currently on the Board of Trustees? The current Trustees are:

One Trustee from each PORAC Region is elected for a two-year term. Elections for regional trustees are held on a rotating basis during the PORAC Annual Conference. The PORAC President appoints one trustee for a one-year term. If you are interested in running for a position on the Board, please contact the PORAC Office.

3) Who handles the day-to-day administration of the Trust? The Trustees have retained Vimly Benefit Solutions, Inc., a third-party administrator, to handle the day-to-day administration of the Trust and serve as the Trust Office. Participants should contact the Trust Office with any questions regarding the Trust or updates of any information that might affect your rights and benefits under the Plan, such as, change of address, family composition (e.g., marriage, divorce, birth of a child, etc.) or employment status (e.g., lay-off, reduction in hours, retirement, etc.). The contact information for the Trust Office is listed in Part A.

PART G:
JOINING THE TRUST/ FUNDING

1) How does a PORAC member Association join the Trust? A PORAC member Association can join the Trust by entering into an MOU with its employer, which mandates contributions to the Trust in the same amount for every employee in the bargaining unit. The MOU can provide for employer contributions on behalf of employees, and/or to take pre-tax deductions from employees' paychecks to pay into the Trust (or both). In order to comply with IRS guidelines, there can be no individual election to enroll, and the contributions by or on behalf of employees generally must be the same for all members of the bargaining unit. Contact Ms. Suzan Kolb of Vimly Benefit Solutions, Inc. for sample MOU provisions and enrollment requirements. See Part A.

2) What is the contribution rate to join the Trust?

- **Monthly contributions from salary**.
- $100 minimum per employee per month. An Association may join with contributions in any $25 increment, starting at least at $100/month per employee per month. There is no individual election either to participate or the contribution level.

- Special rate of $50 for 12 months. An Association may use a contribution rate of $50/employee per month for no more than twelve months.

❖ **Changes in Contribution Rate Allowed**
The Association is allowed to change its contribution in increments of $25 at any time, as set forth in your MOU, or side letter.

❖ **Contribution of sick or vacation leave in the form of a lump-sum transfer to individual Employee Accounts**. An Association may also join by negotiating an automatic transfer of accrued sick and/or vacation leave of its members to the Trust for deposit into individual Employee Accounts. The Trust will accept deposits of accrued sick/vacation leave at retirement or once a year, if negotiated in the MOU at a uniform percentage (e.g., 50% of accumulated sick leave; 100% of accumulated sick leave, etc.) for all individuals in the bargaining unit. These amounts will not be taxable income to the employee (as they would be if the employee takes them in cash). These amounts will be credited to the participant's Employee Account in the Trust.

3) May an individual participant contribute more (or less) than the other members in his/her bargaining unit? No, individual increases (or decreases) in contributions are not allowed. The IRS imposes the prohibition on individual election, including contribution increases; any violation will jeopardize the Trust's tax advantages. (The only exception is COBRA contributions.)

4) May an individual elect whether or not to participate in the Trust (like a cafeteria or 401k plan)? No, there is no individual election to participate in the Trust. Generally, either the entire bargaining unit must participate, or no one may participate. The tax advantages depend on the absence of individual election. However, as discussed in part G1, you may carve out part of the bargaining unit to participate, e.g., new hires. These requirements are set by the IRS.

Examples of Calculation of Benefit Level

$50 monthly contribution = 1 Active Service Unit
Unit Multiplier,[2] effective October 1, 2021 = $0.77

Example #1 – 6 years in Trust: An Association has a contribution rate of $100/month, and Employee Jones participates for two years (or 24 months) at that level. Then the Association increases the contribution rate to $150/month, and Jones participates for four years (or 48 months) at that level, and then retires. The monthly amount available to Jones for medical expense reimbursement will be calculated as follows:

Step 1: Convert monthly contributions to Active Service Units
$100/month = 2 Active Service Units/ Month
$150/month = 3 Active Service Units/ Month

Step 2: Find number Active Service Units
2 Active Service Units x 24 months = 48 Active Service Units
3 Active Service Units x 48 months = 144 Active Service Units
Total = 192 Active Service Units

[2] The Trustees have the authority to modify the Unit Multiplier (UM) from time to time for both existing and future Beneficiaries and work with a professional actuarial firm to determine the UM.

Step 3: Multiply number Active Service Units by Unit Multiplier
Monthly Benefit Amount: 192 x $ 0.77 = $147.84

Example #2 – 12 years in Trust: An Association selects a contribution rate of $100/month, and Employee Jones participates for seven years (or 84 months) at that level. Then the Association increases the contribution rate to $200/month, and Jones participates for five years (or 60 months) at that level, and then retires. Then the monthly amount available to Jones for medical expense reimbursement will be calculated as follows:

Step 1: Convert monthly contribution to Active Service Units
$100/month = 2 Active Service Units/ Month
$200/month = 4 Active Service Units/ Month

Step 2: Find number Active Service Units
2 Active Service Units x 84 months = 168 Active Service Units
4 Active Service Units x 60 months = 240 Active Service Units
Total = 408 Active Service Units

Step 3: Multiply number Active Service Units by Unit Multiplier
Monthly Benefit Amount: 408 x $ 0.77 = $314.16

Example #3 – Career Employee – 25 years in Trust: An Association selects a contribution rate of $100/month, and Employee Jones participates for seven years (or 8

4 months) at that level. Then the Association increases the contribution rate to $200/month, and Jones participates for 18 years (or 216 months) at that level, and then retires. Then Jones' benefit level will be calculated as follows:

Step 1: Convert monthly contributions to Active Service Units
$100/month = 2 Active Service Units/ Month
$200/month = 4 Active Service Units/ Month

Step 2: Find number Active Service Units
2 Active Service Units x 84 months = 168 Active Service Units
4 Active Service Units x 216 months = 864 Active Service Units
Total = 1,032 Active Service Units

Step 3: Multiply number Active Service Units by Unit Multiplier
Monthly Benefit Amount: 1,032 x $ 0.77 = $794.64

***Caveat:* These are examples. The Trustees reserve the right to modify the Unit Multiplier (UM) and the formula used to calculate benefit levels at any time for both existing and future Beneficiaries. Such a modification is most frequently attributable to favorable or adverse demographic or financial experience of the Plan.**