



The
PORAC
Retiree Medical Trust

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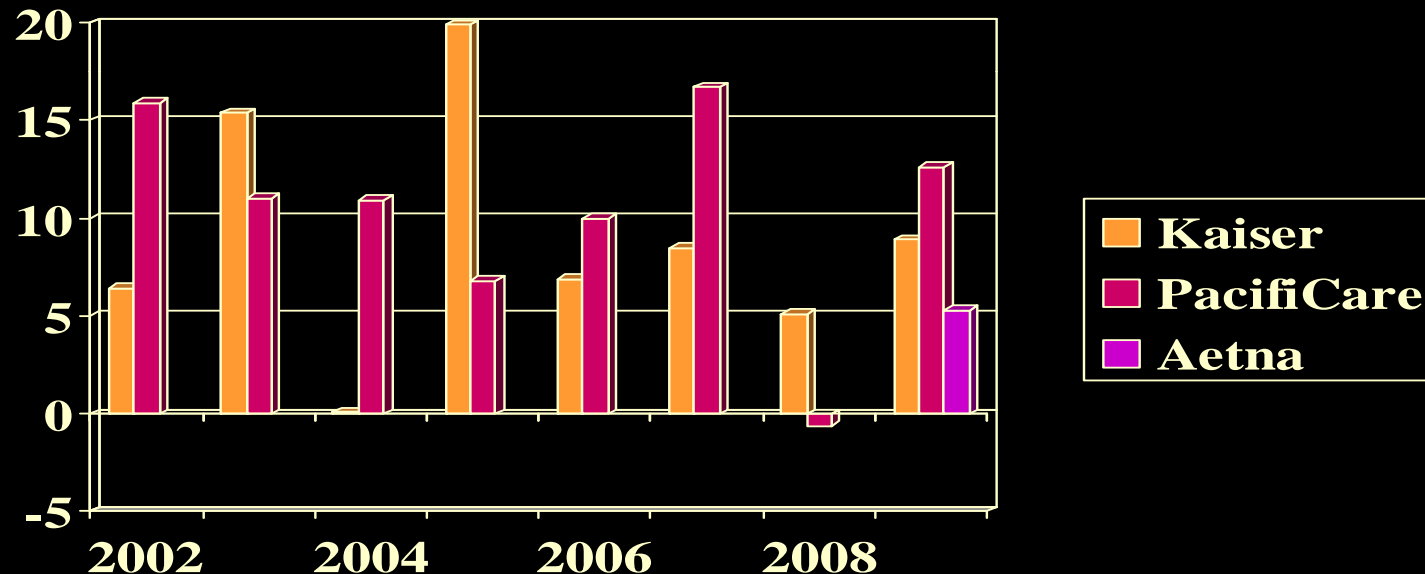
11/18/10 Ed.

Rising Healthcare Costs

The cost of medical care continues to rise faster than overall inflation. Public sector retirees and employees must bear a significant amount of the cost associated with their healthcare.

Rising Healthcare Costs

Annual Rate Changes



From 2002-2009, rates for all **health** plans have nearly doubled.

Rising Healthcare Costs

Example - Chula Vista POA

The Chula Vista POA is one of our participating RMT member associations. In 2009, the cost* for a retired employee and spouse will be:

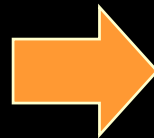
- **\$718/month** for Kaiser or
- **\$769/month** for Aetna.

*The City of Chula Vista currently allows retired employees to obtain medical coverage at the same rate as the City pays for active employees.

PORAC Retiree Medical Trust

A concern for public sector employees is paying for medical coverage because:

- Many public sector retire in their early to mid 50's
- Medicare coverage does not generally begin until age 65
- Retirees might pay out-of-pocket for healthcare premium costs, at non-Medicare supplement rates, for up to 15-years



PORAC Retiree Medical Trust is a flexible options for member associations to:

- ✓ Pre-fund for retiree medical expenses during active years of employment
- ✓ Obtain tax-favored treatment of contributions and benefits
- ✓ Take advantage of collective financing through the “pooling” of contributions

Introduction

PORAC Retiree Medical Trust

The Peace Officers Research Association of California (PORAC) established the PORAC Retiree Medical Trust, a tax-exempt employee benefit trust, to fund the retiree Medical Expense Reimbursement Plan that it sponsors for its member associations.

Basic Features

PORAC Retiree Medical Trust

The PORAC Retiree Medical Trust (RMT) is a vehicle to pre-fund for healthcare expenses during retirement that similar features to both defined benefit and defined contribution plans.

- ✓ Defined Contribution Plan Comparison – Employer and/or employee contributions are set at a fixed contribution rate during collective bargaining, i.e., the contribution is a defined amount.
- ✓ Defined Benefit Plan Comparison – Like a defined benefit plan, contributions are held in trust, pooled and invested together to take advantage of collective financing. However, unlike a defined benefit plan, benefits are variable and may be modified by the Trustees, i.e., benefits from the RMT are not vested.

Background of the PORAC Retiree Medical Trust

- The RMT offers a valuable tax-favored benefit for employee groups, e.g., contributions to the RMT through payroll deductions are not taxable.
- The IRS has granted tax exempt status to the RMT, which allows tax-free investment income on assets held in the trust.
- These types of trusts have gained increased popularity over the last few years.

Tax Advantages of the PORAC Retiree Medical Trust

The PORAC Retiree Medical Trust offers the following tax advantages:

- ✓ Employer – employers are not required to pay or withhold payroll taxes on employee contributions, provided that the entire bargaining unit participates.
- ✓ Employee
 - Employee contributions to the RMT are not subject to personal income tax, which means that employees realize approximately 20% earnings on contributions through tax savings even before contributions are invested.
 - In addition, the RMT is recognized by the IRS as a tax-exempt employee benefit trust, so investment income on RMT contributions are not taxed.
- ✓ Retiree – the reimbursement benefits received from the Trust are *tax free* to the retiree, unlike pension benefits which are taxable.

Funding of the PORAC Retiree Medical Trust

- ✓ Contributions are made through pre-tax payroll deductions in a uniform amount for all employees. This amount is set at the local level through bargaining, in a Memorandum of Understanding or side letter agreement at any \$50 increment between \$100 and \$400.
- ✓ Accumulated sick and/or vacation leave may also be contributed (pre-tax) at a uniform percentage for the entire bargaining unit if made pursuant to a MOU. The Trust will credit such leave to an individual's Employee Account with the Trust. Note the Trust does not accept transfers of compensatory time.

Features of the Medical Expense Reimbursement Plan

- **Pooled Account and Monthly Benefits*** – Contributions are held in a pooled account in trust, which allows significant earnings through tax-exempt investment income and compound interest. The Plan is designed with the intent of providing lifetime monthly medical expense reimbursement benefits to Eligible Retirees from the pooled account. The Trustees reserve the right to raise or lower benefit levels based on certain factors, e.g., investment performance and demographics, so that benefits may last indefinitely.
- **Employee Account*** – The Trust maintains an individual recordkeeping for each Participant to which it will generally debit/credit transfers of accrued leave, investment earnings and losses, administrative Employee Account expenses, and distributions.

Note that eligibility requirements for monthly benefits and Employee Account benefits vary.

Calculation of Monthly Benefit Levels

Monthly benefit levels from the Trust are determined by the method described below. Benefit levels for participants may vary because they are based on on the monthly contribution rate of the participant's bargaining unit and length of contributions to the Trust on behalf of the participant

METHOD FOR CALCULATING MONTHLY BENEFIT LEVELS

- Monthly benefit level = Unit Multiplier x total number of Active Service Units
- The current Unit Multiplier* (UM) is \$0.67
- Each monthly contribution of \$50 = 1 Active Service Unit (ASU)

EXAMPLE MONTHLY BENEFIT LEVEL CALCULATION:

- Participant contributes \$100 / month for 25 years
- 600 total ASUs (or 2 ASU / month x 12 months x 25 years = 600 ASU)
- 600 ASU x \$0.67 = **\$402 monthly benefit level**

**The UM used to determine an Eligible Retiree's monthly benefit level and is based on an actuarial projection, which assumes 6.5% growth on investments. The UM will change from time to time, based on actuarial factors.*

Employee Account Benefits

- Retirees are eligible for reimbursement medical expenses up to the balance of his/her Employee Account, i.e., unlike the monthly benefit from the pooled account, there is no monthly limit on the amount of reimbursement from Employee Account.
- Employee Account balances will generally include debits/credits of accrued leave, investment earnings and losses, and administration fees.
- One advantage of transferring accrued sick/vacation leave is that such transfers are not taxed, unlike cash-outs of sick/vacation leave, which are subject to income tax.

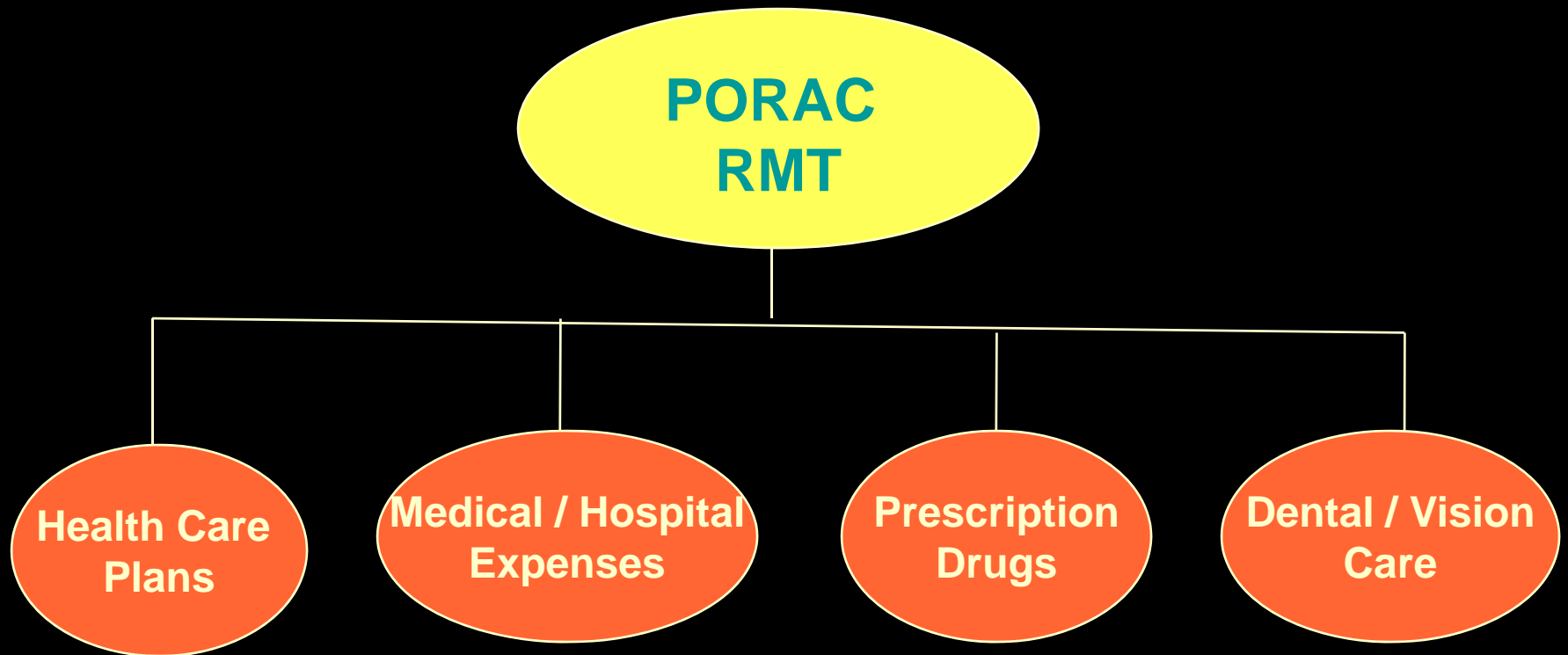
Note that it is possible for participants to qualify for both monthly benefits and Employee Account benefits.

What Type Of Medical Expenses Are Reimbursed by the PORAC RMT?

The RMT provides reimbursement benefits up to the Eligible Retiree's monthly benefit level and/or Employee Account balance for the following types of medical expenses incurred during retirement:

- Medical, dental, and vision insurance premiums and deductibles
- Co-pays for doctor visits
- Prescribed medicines
- Premium payment for a wide variety of health care plans including Long Term Care
- Other medical expenses permitted under IRS Publication 502

Types of Reimbursable Medical Expense



How will the PORAC RMT work for us?

- ✓ All employees in the bargaining unit will make a monthly pre-tax contribution at a uniform level between \$100 and \$400/month in \$50 increments.
- ✓ After 5 years of contributions, all current employees will become eligible for a lifetime monthly benefit upon retirement and reaching age 55. For new hires after joining, 10 years of contributions will be required.
- ✓ (Optional) Upon separation from service, all employees will contribute a percentage of their accrued leave to the Trust. This is also a pre-tax contribution. This contribution will be used to “buy up” Active Service up to the 5 year (or 10 year) eligibility threshold. Accrued leave remaining after the “buy-up” will be held in an individual Employee Account that the Participant may access immediately upon retirement.

How do we join the PORAC Retiree Medical Trust?

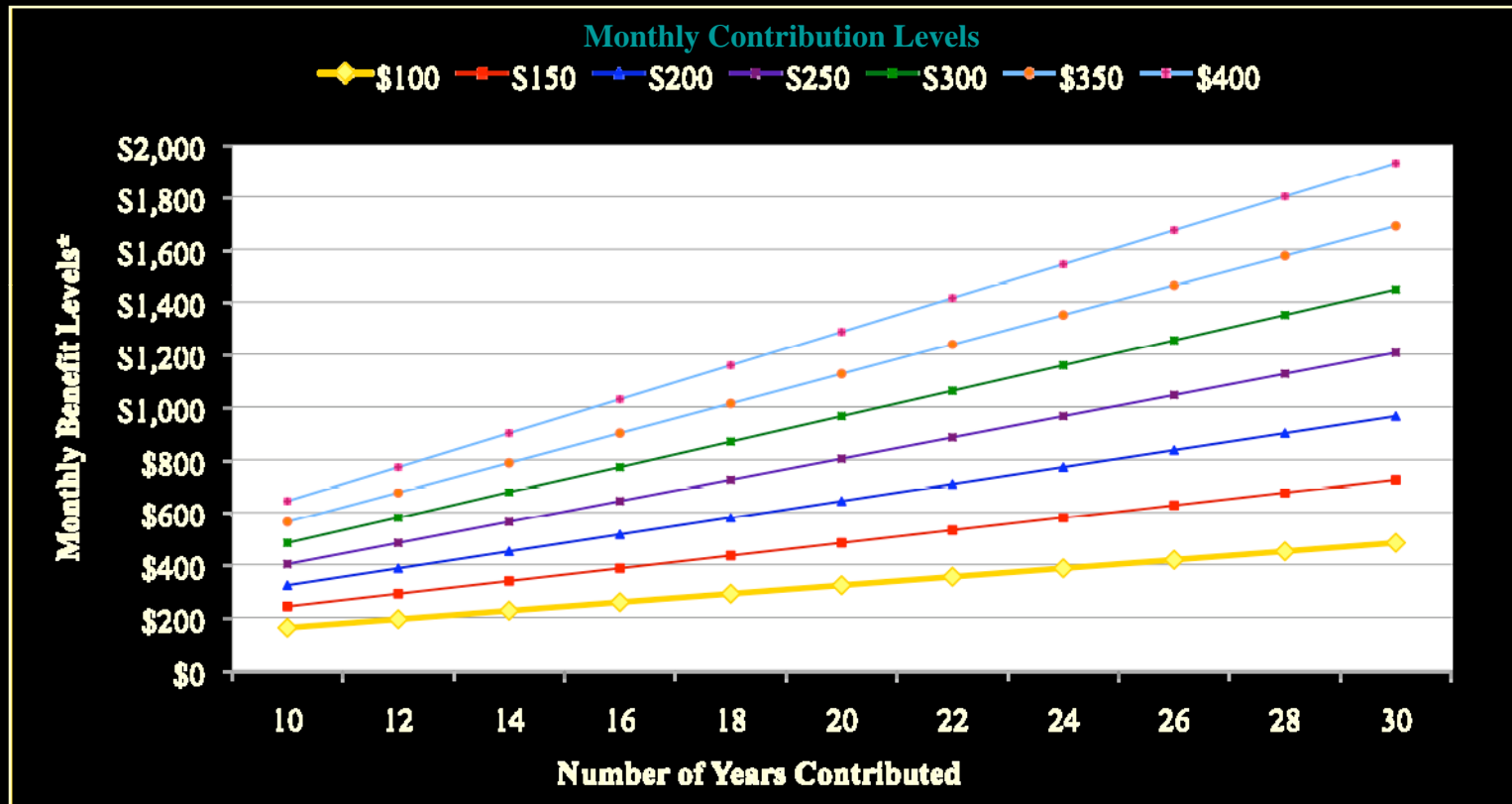
- This is a decision for each PORAC Association, which will have the right to make three choices:
 - ★ Whether to join;
 - ★ The level of the monthly contribution; and
 - ★ The percentage (if any) of leave balance.

All three decisions must be ratified in a MOU or side letter of agreement, and requires a majority vote of the membership.
- The contribution level may be increased or decreased at any time with a majority vote of the membership.
- Complete Joinder Agreement and submit Joinder Fee of \$50 per person with a minimum fee of \$1,000 and a maximum fee of \$7,500.

What would my monthly benefit level be after I retire?

- ✓ The monthly benefit levels are based on actuarial projections to maintain the solvency of the Trust and provide lifetime benefits for all eligible participants.
- ✓ The monthly benefit level will vary based each participant's number of months participated and monthly contribution level.
- ✓ The monthly benefit level may be adjusted (up or down) by the trustees either for current retirees and/or for future retirees, in order to ensure solvency of the Trust.
- ✓ The current Unit Multiplier is set at \$ 0.67 (To calculate the monthly benefit level multiply the UM by your total number of Active Service Units (ASU); you are credited with 1 ASU per monthly contribution of \$50)

How much will I get when I retire?



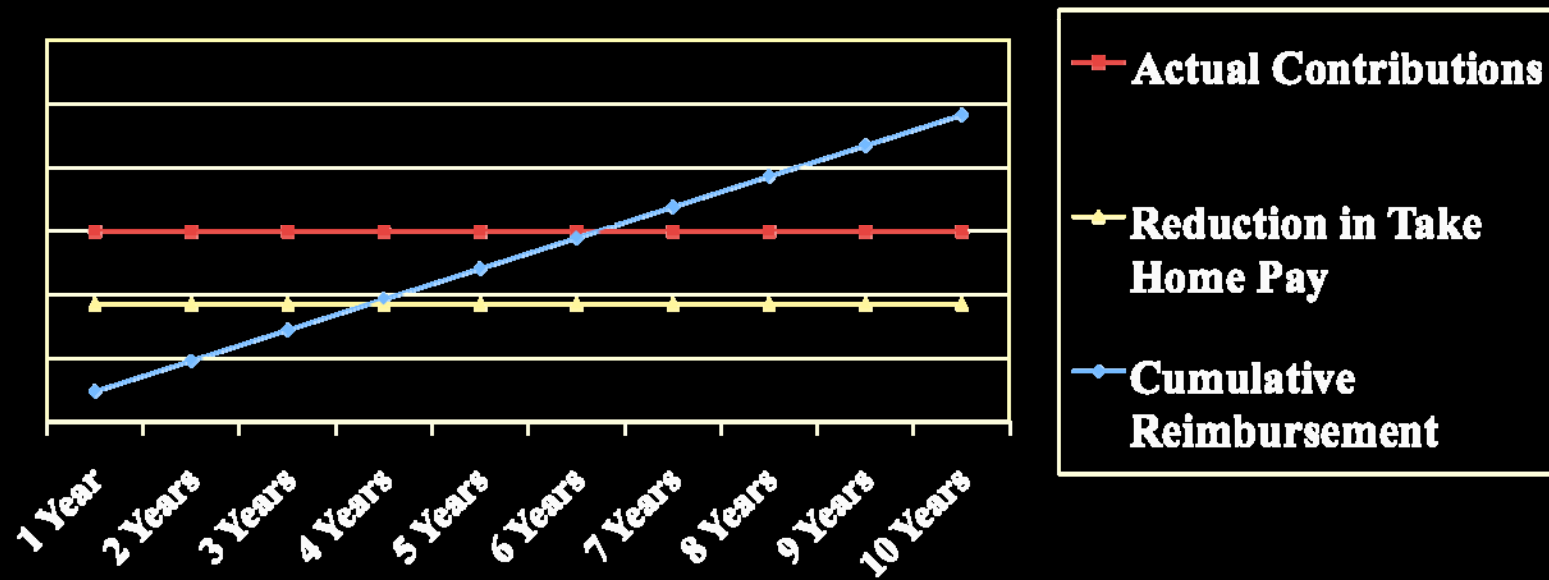
*Monthly benefit levels are subject to change due to fund performance.

Is it really worth it?

Contribution Break Even Point

6 Years 3 months for actual contributions

Approximately 4 Years when compared to change in take home pay



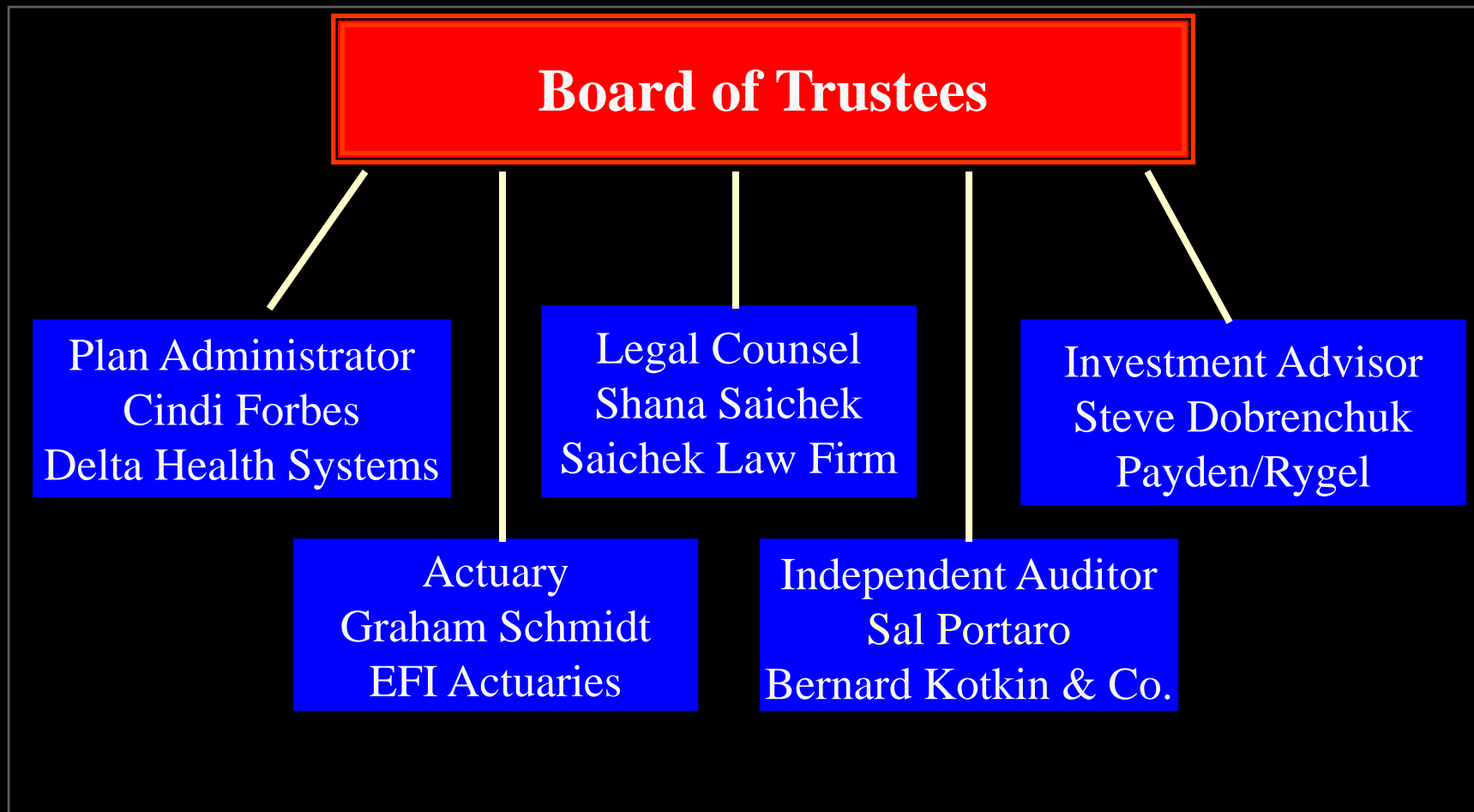
*Difference in take home pay estimated on \$75,000/year with no optional deductions, claiming married 2.

**Reimbursement levels may be changed by the Trustees to ensure the solvency of the Trust.

Board of Trustees

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Advisors to the Board of Trustees



Questions about the PORAC Retiree Medical Trust

If you have questions about the PORAC RMT or would like more information on joining, please contact:

- The Trustee representing your PORAC Region, or
- Ms. Cindi Forbes at the Administrative Trust Office, (800) 700-6762