



*The  
PORAC  
Retiree Medical Trust*

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# *Introduction*

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The Peace Officers Research Association of California (PORAC) is sponsoring a retiree medical benefit plan for its member associations.

It is funded through a tax exempt employee benefit trust called the PORAC Retiree Medical Trust.

# *Rising Healthcare Costs*

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The cost of medical care continues to rise faster than overall inflation. Public sector retirees and employees are bearing a significant amount of the increasing cost associated with their health care.

# *Retiree Medical Plans*

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- When public sector employees retire in their early to mid 50's, a big concern becomes medical coverage until Medicare.
- Here is a method to pre-fund for retiree medical premiums and expenses during your active employment years.

# *Plan Features*

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- A Retiree Medical Trust (RMT) is a healthcare pre-funding vehicle that is funded by defined contributions set in the labor agreement, and provides a stream of monthly payments for life, for those who meet the eligibility rules. The employer and/or employee contributions to the RMT are made during the active employment of participating employees.
- Contributions are pooled and held in trust, which is a separate legal entity from the employee and the employer. The Trust is controlled and administered by a Board of Trustees.
- The payments must be used to reimburse the retiree for medical premiums or medical expenses.

# *Background*

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- The Trust offers a valuable tax-favored benefit for employee groups.
- The IRS has granted tax exempt status to these trusts, allowing tax-free growth of the assets held in the trust.
- These types of trusts have gained increased popularity over the last few years.

# Tax Advantages

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- Retiree Medical Trusts can offer one or more of the following tax advantages:
  - ✓ Employer – employers are not required to pay payroll taxes on the contributions, provided that the entire bargaining unit participates at the same contribution level.
  - ✓ Employee – earnings on contributions are tax-exempt. An employee benefit trust that gains IRS tax-exempt status can realize significant earnings, none of which is taxed.
  - ✓ Retiree – the reimbursement benefits received from the Trust are *tax free* to the retiree, compared to pension benefits which are taxable.

# *Avoidance of Defined Benefit GASB Reporting Obligation*

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GASB (Government Accounting Standards Board) allows special treatment for participation in a retiree medical trust to which more than one employer contributes (i.e., a "multiple employer trust"), if certain requirements are met. Specifically, the GASB rules allow a public employer in such a multiple employer trust to avoid the reporting obligations for a defined benefit retiree health plan under the GASB Statement No. 45. Instead, the employer is obligated to report only the defined contribution to the Trust, and treat the plan as a defined contribution plan for GASB purposes. PORAC has structured its trust to meet the GASB requirements for this multiple employer trust treatment.

# *Funding*

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- ✓ Retiree Medical Trusts offer a valuable benefit for employee groups who can negotiate an employer contribution, and/or are willing to negotiate a small portion of their salary to save for post-retirement medical expenses.
- ✓ Monthly contributions are made into the Retiree Medical Trust during employment of active employees. This is usually done through collective bargaining; the parties agree that an employer contribution and/or a piece (e.g. \$100.00/mo/employee) of salary will go to the Trust.
- ✓ Accumulated sick leave time (or a portion of it) may also be contributed (pre-tax) to your employee individual account in the Trust, if it is negotiated in the MOU for the entire bargaining unit.

# *Plan Structure*

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- **Pooled Account to Provide Long-Term Monthly Benefit** — The monthly contributions made pursuant to your MOU will be held in a pooled account in the Trust. With the advice of a professional actuary, the Trustees will set a monthly long-term benefit, e.g., for life, regardless of how much was contributed by an individual participant. Employees who meet the eligibility rules will receive that monthly benefit.
- **Individual Account to hold Sick and Vacation Leave** — The Plan also maintains an individual bookkeeping account in the name of the employee for each participant who contributes sick or vacation leave. That account will reflect the sick and vacation leave contributions, investment earnings and losses, administrative expenses, and distributions. The employee can draw from that account for medical expenses and/or premiums at any time after retirement (in addition to the monthly benefit from the pooled account).

## *Example: Pooled Plan*

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- Tax-free earnings & compound interest allow significant appreciation on contributions.
- An actuarial projection of 7% growth on investments for a police group in California with a similar-type plan indicated that approximately \$22,000 (\$75/month) would be contributed on behalf of the average employee over his/her career (join at age 27, retire at age 53).
- That employee will receive a total of approximately \$125,000 (non-taxable) benefits from retirement until death (benefit level of approximately \$415/mo. for life).

## *Example: Individual Account*

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- Tax-free earnings & compound interest allow significant appreciation on the sick and vacation leave contributions. The Account Balance will vary depending on length of contributions made on behalf of the employee, investment income, and administrative expenses.
- The monthly reimbursement amount is determined by the employee, at their option, and is limited only by the cost of their medical premium and/or expenses.

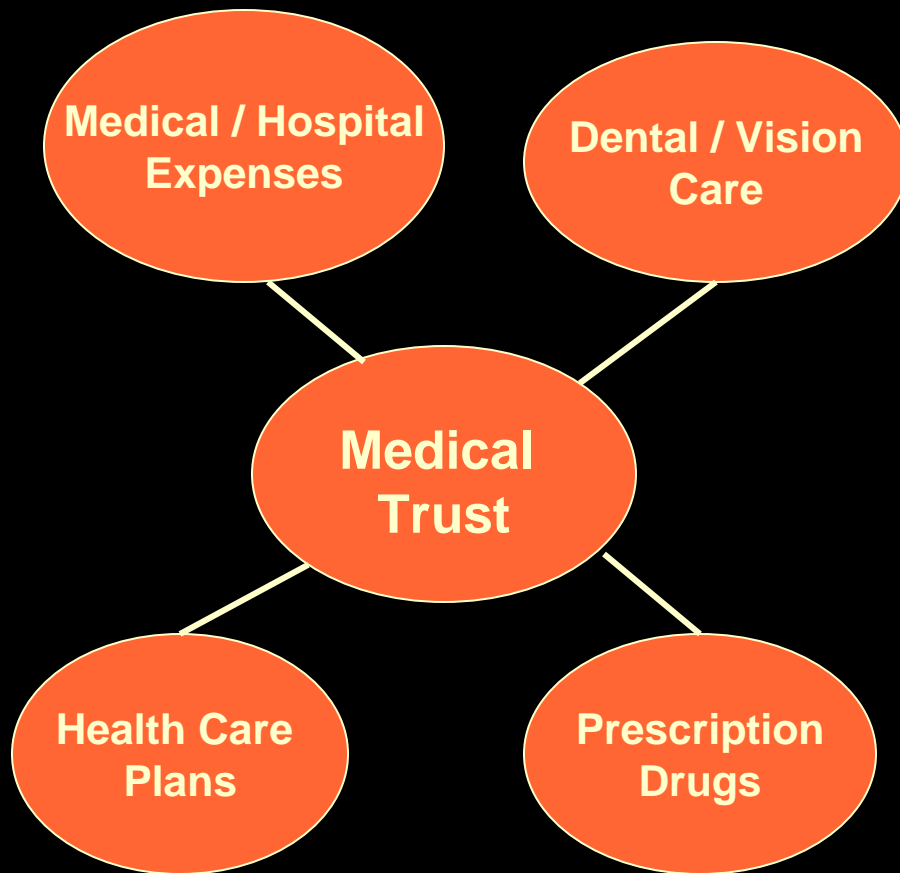
## *What Kind Of Expenses Are Covered?*

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Health insurance premiums  
and/or medical expenses after  
retirement.

The following chart shows the type of expenses that will be reimbursed to eligible beneficiaries by the Trust.

# Covered Expenses



- Premiums for a health insurance plan that covers:

- Medical/hospital expenses
- Dental or vision care
- Prescription drugs
- Long term care

PLUS:

Miscellaneous medical expenses (anything that is a permissible deduction for medical care under Sec. 213(d) of the Internal Revenue Code).

## *How to Implement*

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- ✓ Contact the Association membership and explain the benefits of the PORAC Retiree Medical Trust.
- ✓ Get a majority vote.
- ✓ Must be negotiated in your MOU to obtain all tax advantages.
- ✓ Contact your Region RMT Trustee and/or the Plan's Administrative Agent Cindi Forbes, Delta Health Systems, 800-700-6762.

# Trustees

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**Region I:**        **Earl Titman**  
Novato Police Management Assoc.  
(415) 497-3043 / e-mail: [etitman@ci.novato.ca.us](mailto:etitman@ci.novato.ca.us)

**Region II:**       **Bill Harbottle**  
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**Region III:**     **John Snowling**  
Ventura Police Officers Assoc.  
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**Region IV:**     **Rusty Rea**  
Chula Vista Police Officers Assoc.  
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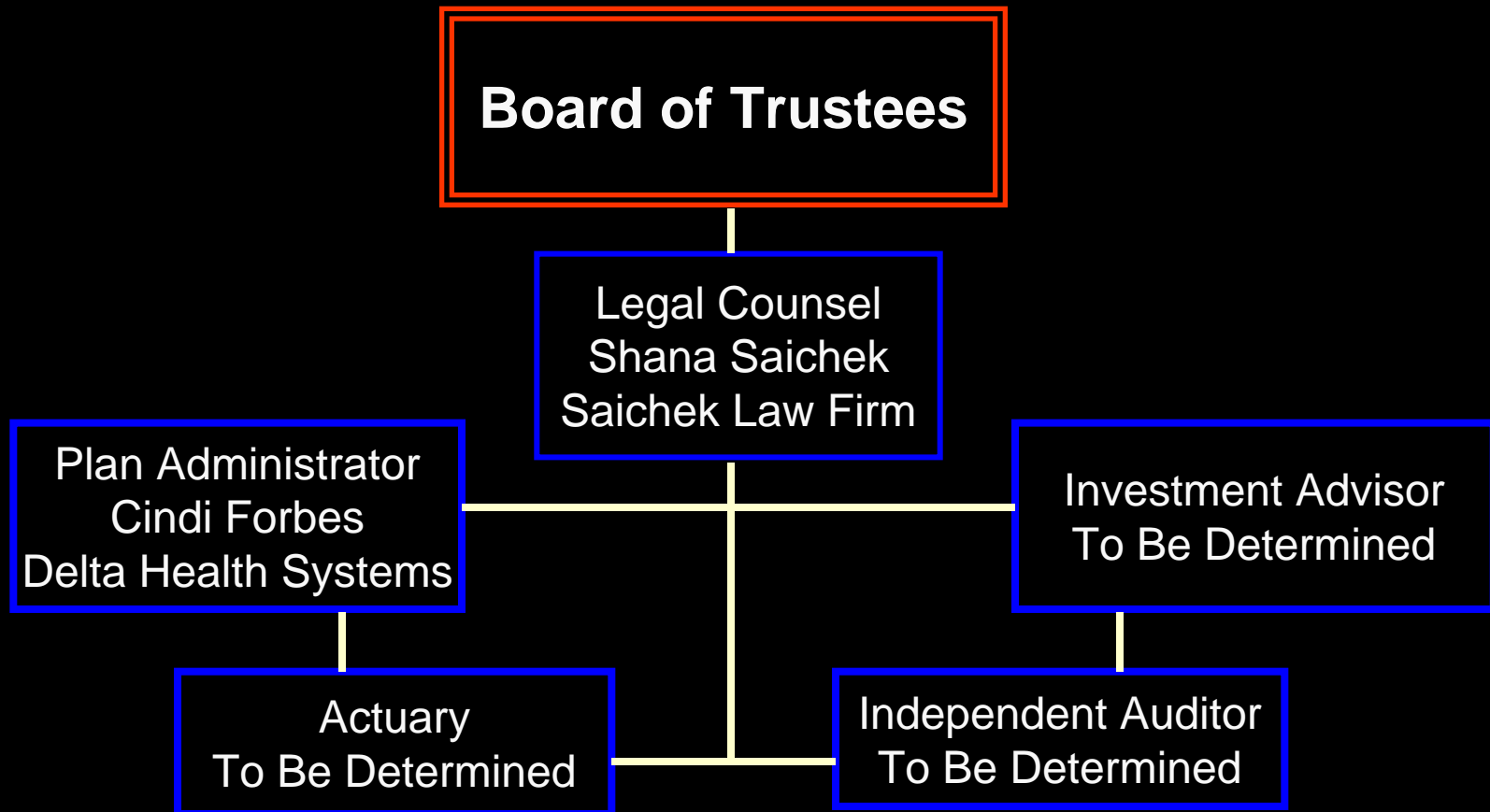
## **PORAC**

**Board Rep:**     **Russell Reinhart**  
Huntington Beach Police Officers Assoc.  
(916) 612-9908 / e-mail: [treasurer@porac.org](mailto:treasurer@porac.org)

# *TRUST ADVISORS*

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# Questions

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- ✓ If you have questions please contact:
  - Your RMT Region Trustee  
or the
  - Trust's Administrative Office  
(Cindi Forbes, (866-258-1912))