



PORAC RETIREE MEDICAL TRUST

C/o Delta Health Systems
 555 W. Benjamin Holt Drive, Ste. 320
 Stockton, CA 95207
 Phone: (800) 700-6762

◀ INFORMATIONAL BULLETIN FOR EMPLOYERS ▶

ADVANTAGES TO EMPLOYERS OF PARTICIPATION IN THE PORAC RETIREE MEDICAL TRUST

-November 2010-

This Bulletin contains information for employers about PORAC's Retiree Medical Trust: The purpose of this Bulletin is to provide answers to common questions asked by employers about the "Medical Expense Reimbursement Plan" (the "Plan") of the PORAC Retiree Medical Trust (the "Trust"). The Trustees reserve the right to amend the Plan, but this Bulletin will give you a general outline of the operation and structure of the Plan and Trust.

1) What is the PORAC Retiree Medical Trust? The Trust is a vehicle for employees and/or employers to put away money during the active employment of participating employees, to pay for medical expenses after retirement, pursuant to the rules of the Plan. Pre-tax contributions are invested by the Trust; then, after retirement, the Trust issues tax-free distributions to Eligible Retirees to reimburse them for covered medical expenses and health insurance premiums. Each PORAC member Association is entitled to make its own decision whether to bargain with its employer for payroll transfers or contributions to join the Trust. If the Association wants to join, participation will be mandatory for all members of the bargaining unit.

2) Does the Trust provide any tax advantages to employers? Yes, payroll taxes are not due on employee contributions to the Trust. Therefore, employers are not required to withhold or pay payroll taxes on amounts contributed to the Trust by employees.

The chart below illustrates potential savings on payroll taxes for employers.

CHART OF EXAMPLES EMPLOYER PAYROLL TAX SAVINGS ON CONTRIBUTION AMOUNTS					
<i>Payroll Tax* Savings Per Year Based on No. of Employees</i>					
		1 Employee	100 Employees	250 Employees	500 Employees
Years Contributed**	1 Year	\$91.80	\$9,180.00	\$22,950.00	\$45,900.00
	5 Years	\$459.00	\$45,900	\$114,750.00	\$229,500.00
	10 Years	\$918.00	\$91,800.00	\$229,500.00	\$459,000.00

*This chart calculates the savings in the current payroll tax rate of 7.65% on FICA and Medicare (i.e., 6.2% for FICA and 1.45% Medicare). We did not include the savings from FUTA or SUTA, even though such amounts are also not due on the employee contributions, because the calculation of those taxes is dependent on multiple factors.
 **This chart calculates savings based on a monthly contribution rate of \$100 per employee (or \$1,200 per year).

3) Is this plan a defined benefit OPEB health plan for GASB purposes? No, it is our understanding that employers will only be required to report the employer's defined contribution amounts, if any; and not any employee contributions. Further, employers will not be required to report on the projected actuarial value of the retiree benefit amounts. However, employers should check with their own accountants on the contents of their financial reports.

4) Will participation by a bargaining unit in the Trust cause much additional administrative work for employers? No, employers should have minimal additional administrative responsibilities. The Trust retains the services of a professional third party service provider to administer the day-to-day operations of the Trust and provide customer service to participants. Therefore, any additional administrative efforts necessary for participation in the Trust by employee bargaining units should be limited, e.g., employers must transfer and report contributions to the Trust as agreed upon under a collective bargaining agreement and employers might be asked to verify the employment status of participants.

5) What type of protection is offered to participating employers? Employers are not legally responsible for claims against the Trust since it is a separate legal entity. The Article XI, "Limitations," Section 5 of the Trust Agreement states "...[N]o participating employer, employer association, labor organization, or employee, nor any beneficiary of a participating employee shall have any right, title, or interest in or to the Trust Fund, or in or to the contributions, or in or to the benefits provided.

Further, the Trustees, who administer and operate the Trust, are considered fiduciaries under federal law. Accordingly, the Trustees have a legal obligation to act in the best interest of plan participants and are permitted to spend Trust assets only on benefits and reasonable administrative expenses.

Note that the Trust is bonded in accordance with federal law and carries fiduciary liability insurance to protect Trust assets in the event of both intentional acts of dishonesty and unintentional errors.

6) Are there any other advantages to employers who agree to the participation of a bargaining unit in the Trust? Yes, the PORAC Retiree Medical Trust can also serve as a valuable retention tool. Providing employees with a plan that provides reimbursement for retiree medical expenses will make the total compensation package more attractive. In addition, the Medical Expense Reimbursement Plan of the Trust is serviced-based, i.e., designed to provide a higher benefit for longer periods of service.

7) Who should employers contact with questions regarding the Trust? Employers should contact the Trust Office with any questions regarding the Trust, e.g., if a bargaining unit of the municipality is interested in joining the Trust, at the following:

**PORAC Retiree Medical Trust
C/o Delta Health Systems
Attn: Ms. Cindi Forbes
555 W. Benjamin Holt Drive, Ste. 320
Stockton, CA 95207
Phone: (800) 700-6762**

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Information to Compare Projected Benefits to Contributions Made

November 2010

DURATION OF TRUST PARTICIPATION AT \$100/MONTH	UNIT MULTIPLIER	TOTAL AMOUNT OF CONTRIBUTIONS AND IMPACT ON TAKE HOME PAY***	MONTHLY BENEFIT LEVEL*	BREAK EVEN POINT**	TOTAL AMOUNT OF BENEFITS AFTER 20 YRS. OF RETIREMENT
6 years	\$0.67	\$7,200 Pre Tax	\$96.48	75 mos. (or 6 yrs. & 3 mos.)	\$23,155.20
12 years	\$0.67	\$14,400 Pre Tax	\$192.96	75 mos. (or 6 yrs. & 3 mos.)	\$46,310.40
20 years	\$0.67	\$24,000 Pre Tax	\$321.60	75 mos. (or 6 yrs. & 3 mos.)	\$77,184.00
6 years	\$0.67	\$4,823.50 Take home	\$96.48	50 mos. (or 4 yrs. & 2 mos.)	\$23,155.20
12 years	\$0.67	\$9,647.04 Take home	\$192.96	50 mos. (or 4 yrs. & 2 mos.)	\$46,310.40
20 years	\$0.67	\$16,078.40 Take home	\$321.60	50 mos. (or 4 yrs. & 2 mos.)	\$77,184.00

* The monthly benefit levels contained in the above chart are examples. They were calculated according to the formula set forth in Section 3.3 of the Medical Expense Reimbursement Plan of the PORAC Retiree Medical Trust, i.e., by multiplying the number of Active Service Units ("ASU") an employee has earned by the Unit Multiplier ("UM").

** The "break even point" is the amount of time it would take for a Retiree to receive reimbursement benefits equal to the amount of monthly contributions he/she made during employment. These numbers have been rounded to the nearest whole month.

*** The "impact on take home pay" is an estimate based on a \$70,000 annual salary with no additional pre-tax deductions claiming married with 2 dependents.

EMPLOYEES WITH LESS THAN FIVE YEARS UNTIL RETIREMENT

Employees joining the Trust who retire with less than five years of Active Service have the following options:

- 1) A retiring Employee with 42-59 months of Active Service may self-pay contributions for up to 18 months under COBRA to earn the 60 months (five years) required to receive lifetime+ monthly reimbursement benefits.
- 2) The Trust will convert sick/vacation leave transferred to the Trust into ASU up to five years required to receive lifetime+ monthly reimbursement benefits. Note that the Trust will only accept leave transfers made pursuant to a Memorandum of Understanding or side letter agreement.
- 3) If the Employee cannot or does not reach the five year Active Service requirement under options #1 - #2 (above), he/she will still be eligible for benefits limited to the amount of his/her contributions. (Note that investment earnings/losses and administrative expenses will be applied against that amount.) There will be no taxation on such benefits.

+ *The Plan is currently written to provide benefits for most Retirees until death. However, this is not guaranteed. The Trustees reserve the right to modify or terminate benefits as necessary to preserve the financial soundness of the Plan.*

BENEFIT LEVEL CALCULATION

Active Service Unit. For each monthly contribution of \$50 an employee earns one ASU (e.g., if an association has a contribution rate of \$100/month, each employee in that association will earn two ASUs for each month of contributions).

Unit Multiplier. The Board of Trustees, with the assistance of a professional actuary, will set the UM from time to time. Currently, the UM is \$0.67.

The Trustees reserve the right to modify the UM and benefit level calculation formula at any time for existing and future beneficiaries. Such modification is most frequently attributable to favorable or adverse demographic or investment experience of the Trust.