PORAC RETIREE MEDICAL TRUST

c/o Delta Health Systems
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Phone: (800) 700-6762

FREQUENTLY ASKED QUESTIONS BULLETIN

- November 2010 -

This Bulletin contains important information about PORAC's Retiree Medical Trust: The purpose of this Bulletin is to answer common questions 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.

IMPORTANT NOTE: This Bulletin has been designed to provide you with key information about the Medical Expense Reimbursement Plan of the PORAC Retiree Medical Trust, but it does not provide all the details and limitations of the Plan. Exact specifications are provided in the formal Plan document, which will prevail in case of conflict with this Bulletin. You may request a copy of the most up-to-date Plan document from the Trust Office; see Part 1, the Q&A No. 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 vehicle to put away money while you are working, to pay for medical expenses after you retire, pursuant to the rules of the Plan. Pre-tax contributions are invested by the Trust, then after retirement, tax-free distributions reimburse Eligible Retirees for covered medical expenses and health insurance premiums. Each PORAC member Association may make a collective decision to join the Trust, similar to the Legal Defense Fund.

2) Why should my Association join the Trust? Your Association should consider joining the PORAC Retiree Medical Trust as part of its solution to the problem of rising health care costs, and budget strains on cities and counties. The Trust is a flexible and tax-favored program available to PORAC member Associations to fund for post-retirement medical expenses, through pre-tax employer and/or employee contributions. Also, the Trust offers advantages from pooling contributions, such as, providing a lifetime[1] stream of benefit payments. This has advantages over an individual health savings account benefit, which will terminate when the account balance reaches zero. (For details see Part E, "Tax and Pooling Advantages.")

3) Who should I contact with questions regarding the Trust? You should contact the Trust Office with any 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, at the following:

PORAC Retiree Medical Trust
c/o Delta Health Systems
Attn: Ms. Cindi Forbes
Phone: (800) 700-6762

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

POR010 FAQs, 9/22/10 Ed. li210101

PART B: BENEFITS AND PARTICIPATION AT A GLANCE

1) What types of benefits are available from the Trust? Benefits from the Trust come in the form of reimbursement for certain medical costs incurred after you retire, which the Plan defines as "Covered Expenses."

2) For what type of medical expenses does the Trust provide reimbursement benefits? 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, or visions insurance plans.
- 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 insulin, but not including other non-perscribed drugs.
- Premium payment for qualified long-term care insurance.

You may contact the Trust Office or visit www.irs.gov to see IRS Publication 502 for more details on Covered Expenses.

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.

If you are a represented by a member Association of PORAC interested in joining the Trust, please contact Ms. Cindi Forbes at the Trust Office, phone: (800) 700-6762.

PART C: MONTHLY BENEFITS

1) How does a participant become eligible for monthly reimbursement benefits? A participant becomes eligible for monthly reimbursement benefit payments if the Trust has received contributions for all periods of Active Service earned by the participant and he/she has met the following requirements:

- Earned 10 years of Active Service in the Plan (or five years for an individual who is an Employee when his/her bargaining unit joins the Trust);
- Attained age 55 (age 58 for non-safety members); and
- Ceased employment under a bargaining unit represented by a PORAC member association participating in the Trust.

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

3) What is an Active Service Unit (ASU)? An Active Service Unit (ASU) is a factor used in calculating the monthly benefit level for an Eligible Retiree. The Trust will credit a participant with one ASU for each monthly $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 is $100, he/she will receive 2 ASUs for each monthly contribution; or if the participant's monthly contribution is $200, he/she will receive 4 ASUs for each monthly contribution. In this way, the Association has flexibility to modify the amount of the monthly contribution in a subsequent MOU, and that modification will be reflected in more (or less) ASUs earned by its members.

4) What is an Eligible Retiree's "benefit level" and how is it 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 Retiree is calculated by multiplying the total number of ASUs he/she has accumulated by the Unit Multiplier, currently $0.67. 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. It will change from time to time. See Attachment A for sample benefit level calculations.

5) Does the Trust provide benefits to participants who will retire before making 5 years of contributions? Yes, for a participant who retires before earning the required five years (or 10 years, if applicable; see Part C – Q.1), 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 limited to the amount in his/her Employee Account.

(Note however, that if the participant is within 1.5 years of the 5 or 10 year requirement, he/she could elect to self-pay for up to 18 months per COBRA rules in order to reach the threshold for the lifetime monthly benefit.)

6) Can a participant use accrued sick/vacation leave to "Buy-Up" Active Service and meet the requirement for monthly benefits? Yes, a participant may use his/her accrued sick/vacation leave to "buy-up" (at actuarial cost) the years (or partial years) of Active Service to achieve eligibility for monthly benefits when he/she might not otherwise have been eligible. This buy-up is subject to the certain conditions in the Plan.

7) Why do benefits from the Trust start at age 55 instead of age 50 like some pension plans? Although many pension plans provide benefits of 3% at age 50, some individuals choose to delay retirement in order to maximize their retirement benefits, and those who do retire before 55 will often find other employment or maintain benefits under a spouse. This Plan was designed for all PORAC members, and there are many different retirement formulas among the members. If the Trust allowed monthly reimbursement benefit payments to begin at age 50, the actuarial assumptions would have to include the possibility of everyone retiring at age 50. Accordingly, the Trustees would have to decrease monthly benefit levels.

8) 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[2], but this is not guaranteed. All contributions and earnings in the Trust may be spent only on benefits and administrative expenses under federal laws. However, 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.

9) What happens to a participant's monthly benefits upon death? The Plan includes monthly reimbursement benefit payments to the Surviving Spouse and Children (as defined in the Plan) of an Eligible Retiree. The monthly benefit level for a Surviving Spouse is 50% of the monthly benefit level of the deceased

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Retiree. If there is no Surviving Spouse and there are surviving Children, the benefit level will be 50% of the benefit level for deceased Retiree (to be divided equally among the Children). 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.

These benefits are paid to the surviving spouse during two periods - First, benefits will be paid to the Surviving Spouse for 24 months immediately following the Eligible Retiree's death, while the widow(er) adjusts to the new circumstances. Second, the monthly reimbursement benefit payments will resume when the spouse reaches age 55 and continue until the spouse's death.

However, 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

1) Who will have an individual Employee Account in the Trust? Generally, a participant will have an Employee Account in the Trust if his/her Association has negotiated for the mandatory transfer of sick/vacation leave to the Trust. In addition, a participant who does not qualify for the monthly lifetime benefit will have an Employee Account to which his/her Employee contributions will be credited.

2) What will be included in the balance of a participant's Employee Account? The balance of a participant's Employee Account will generally include the following amounts (minus reasonable administrative expenses):

- The amount of sick/vacation leave transferred to the Trust that is not used to "buy-up" Active Service (see Part C, Q&A No. 6)
- Investment earnings and loses

Also, Employee Accounts of participants that do not meet the minimum Active Service requirement will have Employee contributions credited.

3) Can a participant receive both monthly reimbursement benefits and Employee Account benefits? Yes, a participant may receive both monthly reimbursement benefits and Employee Account benefits if the participant has meet the eligibility requirements for monthly benefits and has sick/vacation leave transferred to the Trust.

4) 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.

Note that if there is no Surviving Spouse, then the balance of the Employee Account is divided equally between all children, and 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 the employer contributions nor employee contributions to the Trust are taxable;
- The Trust itself will accrue earnings on a non-taxable basis; and
- Your benefits will not be taxed when you receive them.

This means that the contribution to the Plan will never be taxed (unlike pension benefits which are taxed upon receipt). Eligible Retirees will receive the non-taxable benefit payments after retirement for medical coverage, unlike distributions from a 457 Plan, which are taxable income to the Retiree.

2) What are the advantages of a pooled account? The Trust is designed so that contributions are held and invested collectively in a "pooled account." There are certain advantages to pooling funds, including:

- **Continuing income to the Trust.** This Trust is somewhat different than an individual account "Health Savings Account" ("HSA"). This Trust pools all contributions, and invests them on a long-term time horizon. This means two things: 1) The Trustees can reasonably adopt a higher earnings assumption than an employee might adopt for an HSA, because the long term nature of the investment allows for some smoothing over the volatility of the market; and 2) after retirement, an Retiree could not assume any further income to his account, whereas the pooled plan is continually receiving a stream of contributions from active members.
- **Lifetime benefit payments.** This Plan is designed to provide a monthly stream of benefit payments for the retiree's lifetime[3], plus a continuing benefit payment stream to the surviving spouse 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:
OPERATION AND FUNDING

1) What is the legal structure of the Plan? Plan assets (i.e., contributions and investment earnings) 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 members from PORAC member Associations. The Board designs the Plan, selects investment vehicles, decides on distribution options, etc. The Board has hired a professional investment manager to advise regarding investment of Plan assets.

Federal law regulates the Trust and the Trustees are charged with fiduciary responsibility to administer the Plan for the "exclusive benefit" of the participating employees. If the Trustees fail to do so, they are subject to civil and criminal penalties. All contributions and earnings into the Plan can be spent only on benefits and

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administrative expenses. It would violate federal law if the assets ever were paid to any local, PORAC, the Trustees, or the employers.

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

Earl Titman, Region I (Chairperson)
Novato Police Management Association
earldd183@aol.com

Bill Harbottle, Region II
Tulare County Deputy Sheriffs Assoc. (*Ret.*)
Bharbot106@hotmail.com

John Snowling, Region III
Ventura Police Officers Association
jsnowling@venturapd.org

Rusty Rea, Region IV
Chula Vista Police Officers Association
rrea@cvpoa.org

Kreg Muller, PORAC Board Representative
Huntington Beach Police Officers Association

One trustee from each PORAC Region is elected annually during the PORAC Conference, and the PORAC President appoints one trustee. If you are interested in running for a position on the Board please contact the Trust Office.

3) Who handles the day-to-day administration of the Trust? The Trustees have retained Delta Health Systems to provide 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:

PORAC Retiree Medical Trust
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Stockton, CA 95207
Phone: (800) 700-6762
Fax: (209) 955-4190

PART G: JOINING THE TRUST

1) How does a PORAC member Association join the Trust? A PORAC member Association can join the Trust by entering into an agreement with its employer, which mandates contributions to the Trust in the same amount for every employee in the bargaining unit. This would be accomplished through a MOU with your employer, to make employer contributions on behalf of every employee in the bargaining group, and/or to take a pre-tax deduction from every employee's paycheck to pay into the Trust. A combination of employer and employee money may be used. In order to comply with IRS guidelines, enrollment must be done as a bargaining unit, i.e., there is no individual election, and the amount of contribution by or on behalf of every employee must be the same for all members of the bargaining unit.

Contact Ms. Cindi Forbes of the Trust Office at (800) 700-6762 for sample MOU provisions and enrollment requirements.

2) What is the contribution rate to join the Trust? An Association may join at any $50 increment starting at $100/month with a maximum of $400/month. Each bargaining group must select a contribution level within that range in order to participate. The Association's contribution rate will correlate to the monthly benefit level of Retirees in the Association, i.e., the Trust will grant one ASU for each monthly contribution of $50), and a Retiree's benefit level is determined by multiplying his/her total number of ASUs by the Unit Multiplier (see Attachment A for sample benefit level calculations). Accordingly, if the Association increases its monthly contribution rate during the career of a Retiree, his or her monthly benefit level will reflect that increase.

3) May an individual participant contribute more (or less) than the other members in his/her bargaining unit? No, individual increases (or decreases) of contributions are 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. The entire bargaining unit must participate, or no one from the bargaining unit may participate. The tax advantages depend on the absence of individual election. <u>These requirements are set by the IRS.</u>

5) Can participants contribute our accrued sick/vacation leave on retirement? The Trust will accept deposits of accrued sick/vacation leave balance payouts at retirement, or one 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 <u>all individuals in the bargaining unit</u>. These amounts will not be taxed; and the entire amount will be credited to the participant's Employee Account in the Trust (minus any amount used to "buy up" Active Service) – no taxes will be due.

>We hope this Bulletin provides you with an understanding of the basic purpose and operation of the PORAC Retiree Medical Trust. This material is designed to give general information on the subject covered. It is not intended to be comprehensive or to treat exhaustively the subject or to provide legal advice. Any conflict between this Bulletin and the Medical Expense Reimbursement Plan of the PORAC Retiree Medical Trust will be resolved in favor of the formal Plan documents.

>Pursuant to U.S. Treasury Circular 230, this communication is not intended or written to be used, and it may not be used by you or any other person or entity, for the purpose of avoiding any penalties that may be imposed on you or any other person or entity under the United States Internal Revenue Code.

ATTACHMENT A
Examples of Calculation of Benefit Level

$50 monthly contribution = 1 Active Service Unit
Unit Multiplier, effective May 18, 2010 = $0.67*

<u>Example #1 – 6 years in Trust</u>: 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

Step 3: Multiply number Active Service Units by Unit Multiplier:
Monthly Benefit Amount: 192 x $ 0.67 = $128.64

*   *   *

<u>Example #2 – 13 years in Trust</u>: 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 $ 0.67= $273.36

**** The Trustees have the authority to modify the UM from time to time for both existing and future Beneficiaries and work with a professional actuarial firm to determine the UM.***

<u>Example #3 – Career Employee – 25 years in Trust</u>: 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 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	= 1032 Active Service Units

Step 3: Multiply number Active Service Units by Unit Multiplier.
Monthly Benefit Amount: 1032 x $ 0.67 = $691.44

* * *

<u>Caveat</u>: These are examples. The Trustees reserve the right to modify the Unit Multiplier 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. For more details, please contact the Trust Office: Delta Health Systems (800) 700-6762.