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Retiree Medical Trusts:

How employers and employees can use pre-tax dollars to fund retiree medical expenses.

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What is a Retiree Medical Trust (RMT)?

- ◆ Trust that reimburses healthcare premiums and expenses after retirement; Not part of pension plan
- ◆ Provides lifetime stream of benefits (or until Medicare) based on **collectively bargained contributions** during employment
- ◆ Can be controlled by Unions, employer or joint board
- ◆ Particularly suitable for public employees, who generally have gap in medical coverage from retirement to Medicare

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RMT Actual Clients: Contribution and Benefit Levels

ASSOCIATION ¹	MONTHLY CONTRIBUTION DURING EMPLOYMENT	MONTHLY BENEFIT DURING RETIREMENT WITH 25 YEARS CONTRIBUTIONS ²	MONTHLY BENEFIT DURING RETIREMENT WITH 30 YEARS CONTRIBUTIONS	REDUCTION AT MEDICARE ELIGIBILITY	SURVIVING SPOUSE BENEFIT ³
Public Safety Assoc. No. 1	Average \$170	\$805	\$967		50% ⁴
Public Safety Assoc. No. 2	\$200	\$690	\$828		50%
Public Safety Assoc. No. 3	Average \$200	\$924	\$1,109		50% for 2 years & 50% at age 55
Public Safety Assoc. No. 4	\$425	\$1,096	\$1,316	50%	100% for 2 yrs, & 50% at age 50

¹Confidential and proprietary information without written permission of The Wagner Law Group. Calculations are based on data of actual clients of The Wagner Law Group, as of February 1, 2024, and subject to change.

²This chart shows average benefit levels for 25 and 30 years of contributions to the Plan. Results for a particular individual may vary based upon various factors, including but not limited to, date of hire, date of union participation, leaves of absence, differences in plan design, investment returns, etc. Benefits are not vested and the Trustees have authority to adjust the benefit terms and benefit levels at any time for some or all current and/or future retirees.

³Surviving spouse benefits are generally payable for the lifetime of the surviving spouse, except as indicated in this column. Note that some Plans have a so-called “bridge benefit,” which is paid upon the death of the employee for a short period (e.g., 2 years), and then resumes at the Plan’s normal retirement age.

⁴Plan provides option to increase Eligible Retiree benefit level by electing surviving spouse benefit terminating at Medicare eligibility of spouse.

Contribution and Benefit Levels (cont.)

ASSOCIATION	MONTHLY CONTRIBUTION DURING EMPLOYMENT	MONTHLY BENEFIT DURING RETIREMENT WITH 25 YEARS CONTRIBUTIONS	MONTHLY BENEFIT DURING RETIREMENT WITH 30 YEARS CONTRIBUTIONS	REDUCTION AT MEDICARE ELIGIBILITY	SURVIVING SPOUSE BENEFIT
Public Safety Assoc. No. 5	4% of pay Average = \$638	\$1,600 ⁵	\$1,600 ⁵		100% at age 50
Public Safety Assoc. No. 6	\$140 plus \$800K from annual fundraiser	\$508-1,270 ⁶	\$508-1,270 ⁶		50%
Public Employees Assoc. No. 1	2% of pay Average = \$174	\$574	\$689	25%	50%
Public Employees Assoc. No. 2	\$217	\$630 ⁵	\$630 ⁵		100%
Public Employees Assoc. No. 3	5% of pay Average = \$392	\$1,000 ⁵	\$1,000 ⁵		50%

⁵These Plans cap benefit level at 20 years of service.

⁶Benefit level higher based upon age that benefits commence; highest benefit quoted in chart is for commencement of benefits at age 70.

Tax Advantages of a Retiree Medical Trust

- ◆ Accepts **pre-tax** contributions, if contributions are non-elective
- ◆ Provides **tax-free** earnings, if held in a VEBA under Internal Revenue Code 501(c)(9), or in an integral part trust under IRS Sec. 115
- ◆ Allows **tax-free** reimbursement of qualified out-of-pocket healthcare expenses after retirement, including:
 - Health insurance premiums
 - Medical, dental and vision care expenses
 - Prescriptions

Administration by Board of Trustees

- ◆ Trustees may be selected by Union that sponsored Trust, by government agency that set up Trust, or both
- ◆ Trustees have fiduciary responsibility under federal law, i.e., they have a legal obligation to make decisions in the best interests of employees and retirees in the Trust
 - Spend funds only on benefits and reasonable expenses of administration
 - 3(38) versus 3(21) fiduciary advisor
- ◆ Trustees set eligibility requirements for lifetime benefit

Comparison of Benefits: Pooled and Individual Account Plans

Example: Hired at age 28, retired at age 53, with employment contributions of \$102,000

Pooled Plan

Monthly Benefit: \$713

Individual Account

Monthly Benefit: \$587

Why the difference?

Reason for difference = investment profile after age 53

Comparison Benefits: Pooled and Individual Account

Pooled Plan

Assumed return 6.5%

Pooled account can weather volatility in market with long term time horizon and can remain invested in 60/40 stock bond asset allocation

Individual Account

Assumed return 4.5%

At about age 53, retiree should start investing in more conservative options

Retiree Medical Trust Advantages of Pooled Plan Design Over Individual Account Plan

TERMINOLOGY

Pooled Plan. A trust where contributions on behalf of all members are pooled and invested together; and eligible retirees are entitled to a lifetime stream of monthly benefit payments. (This is similar to a defined benefit pension plan but benefits are variable, not vested.)

Individual Account Plan. Contributions on behalf of each member are credited to an individual account; eligible retirees are entitled to benefits up to the balance of his or her individual account. (This is similar to a 457 deferred compensation account.)

SUMMARY CHART POOLED PLAN V. INDIVIDUAL ACCOUNT

	Pooled Plan	Individual Account
Total Contributions	\$102,000	\$102,000
Monthly Benefit	\$713	\$587
Benefits Received After 28 years (or 336 months)	\$239,568	\$197,232
Pre-retirement Earnings Assumption	6.5%	6.5%
Post-retirement Earnings Assumption	6.5%	4.5%
Length of Benefit Payments	Until Death	Until Balance Reaches Zero

Benefits from RMT “Pooled Account”

- ◆ Monthly benefit level set by Trustees, based on actuarial projections, length of service, etc.
- ◆ Benefits are not vested, they are **variable**
- ◆ Retiree gets payment (up to benefit level) for reimbursement of medical expenses
- ◆ Intended to last lifetime, or until Medicare
- ◆ Trustees can build in surviving spouse benefit
- ◆ Can be structured to allow multiple bargaining unit participation at different contribution levels by bargaining unit

Individual Accounts for Sick or Vacation Leave Transfer

- ◆ Sick (or vacation) leave cash-out transfer into individual account in the Trust:
 - Contributed pre-tax to individual account
 - Bargaining unit chooses level, e.g., 50%, 75%
 - Will earn tax-free interest or investment returns
 - Incentive to save leave (employer benefit)
- ◆ No elective self pay, must be mandatory at same level (percent) for entire bargaining unit

Individual Account for Short Term Participation in Trust

- ◆ Individual account for those who don't reach the Plan's eligibility threshold for the lifetime benefit (e.g., five years of contributions):
 - Reimbursements for medical expenses any time after separation from employment
 - No age requirement for eligibility
 - All employment contributions transferred to individual account
 - Surviving spouse benefit available



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