

Retiree Healthcare Funding

Imagine a new benefit program that allows your member's flexible, pre-tax contributions that accumulate and compound tax-free to pre-fund the future cost of health care expenses. Participants can take tax-free distributions at separation of service without penalties and taxes for qualified medical expenses. Assets are held in a secured trust and are protected from creditors of the employer. By making this plan available to your members you can help insure that retirement monies will be spent on living expenses not medical expenses.

RHFP is a nation-wide health care savings plan that provides a source of tax-free funds to pay for the cost of health care expenses for your members, their spouses and qualified dependents. The account may be used to pay for any qualified post-retirement medical, dental, or vision out-of-pocket expenses (deductibles, co-payments, co-insurance, etc.), plus post-retirement insurance premiums for medical, dental, vision (including COBRA premiums), qualified long-term care premiums, Medicare Part B premiums, Medicare Part D premiums, and Medicare supplement insurance plan premiums.

Group Benefit Associates built this plan for the Illinois Public Pension Fund Association which helped them to create a unique program for Illinois public sector employees interested in helping their members deal with post retirement health care funding. RHFP allows employees to pre-fund the future cost of health care expenses with Pre-Tax Contributions while the employees are still working.

All of the options available contain the following common elements:

- Pre-Tax Contributions
- Tax-Free Accumulation
- Tax-Free Distribution of Funds for Covered Benefits
- Plan Executed and Sponsored by Union or Employer
- Plan Can be Sponsored by Collective Bargaining Unit or Benevolent Association

At separation of service, RHFP provides a tax and penalty free method for the payment of medical premiums along with out of pocket medical expenses. Pre-Retirement access is available for such items as Long Term Care Insurance and Disability Benefits.

If an organization prefers The Declared Benefit VEBA approach, we will assist each employer with the development of an individually customized and priced program.

Group Benefit Associates will customize Post Retirement Health Care Solutions to meet your organization's specific needs. The program can include any of the following plan designs:

RHFP (Enhanced VEBA)

Inherent Function Grantor Trust

VEBA

- Defined Contribution
- Declared Benefit

Let us design the program that is best for your organization. Please call Don Hook or Joel J. Babbitt at 773-427-2060 for additional information.

SHOW ME THE MONEY!

WHERE DOES THE FUNDING COME FROM?

**Terminal Leave (Sick/Vacation/Comp Time etc.)
either annually or at end of career**

**Mandatory Member
Contributions**

**Direct Employer
Contribution**

ALL OF THE ABOVE WORK INDEPENDENTLY OF EACH OTHER. A GROUP CAN IMPLEMENT ANY OR ALL OF THE ABOVE METHODS OF FUNDING.

This is intended to demonstrate the versatility of the options that are currently available. The primary issue with Post Employment Health Care Funding that needs to first be addressed is where the money is coming from to fund the program. Once that is agreed upon, and then how much?

Frequently Asked Questions by Participants

Many questions come up with regards to the actual use of this program. These are the most commonly asked questions. If your question is not addressed, please call our office and we will be answer any question you may have.

When can I access my funds? – After separation of service. The retirement age is usually set by either statute or the plan sponsor.

For whose benefit can the funds be used? - Any one who is a federal income tax dependent.

What can my funds be used for? - Your funds may be used for anything deductible under IRC 213, which is the same code section that governs medical deductions on your Federal income tax return. You may have a standing claim for all or part of your insurance premium that would produce a monthly check and you may submit claims for out of pocket expenses as incurred.

What happens to my funds in the event of my death? – Your surviving tax dependents have the same rights to the funds as before your death. If you have no surviving tax dependents the remaining funds revert to the trust and are used to pay expenses and/or are reallocated to remaining participants. A design option is the VEBA Estate Creation (VEC) Plan that insures a lump sum Death Benefit to a named beneficiary, regardless of dependant status. As a result, the balance is released to be redistributed to remaining participants creating cost recovery of the insurance premiums.

What are the administrative charges? – There are no administrative charges, all expenses are covered by the asset charges of the funds. If the VEC Plan is adopted the cost of insurance is deducted before the funds are deposited into the VEBA trust.

How are my funds invested? - RHFP® uses a Diversified Investment Advisors Program. This program includes a guarantee account and 19 additional equity separate accounts.

Examples of how different versions of this program have been implemented.

- IBEW Local has negotiated a 3% employer contribution on gross wages into RHFP
- IBEW Local is mandating that each member defer 5 cents an hour into RHFP
- Fire Union – Every Fireman is deferring 1.5%, then 2%, then 2.5% of their salary over the 3 years of the most recently negotiated contract. Plan to increase to 5% over time
- Police Union – Once the officer accumulates a number of sick days (example 30), every unused sick day is converted to cash and deposited into their RHFP account on January 1 of the following year.
- Fire Union – Every member is deferring .5% of salary for this contract.
- Fire Union – 100% of Severance Benefit (50% of final salary) deposited at retirement
- Police Union – Currently an Officer can retire with 120 sick days that can be converted into cash at 50%. Every Officer will have to convert 100% of their account into their RHFP account upon retirement.
- Police Union – Currently negotiated to have the employer collect and remit \$20 per pay period to fund flat benefit RHFP.
- Non Represented – All non represented are required to convert 100% of their accumulated sick and vacation account balance into RHFP.
- Police Union – Every Officer is deferring 32 hours of sick pay with the employer contributing an additional lump sum of \$750 per year. In addition, the officer receives 100% for every accumulated sick and vacation hour that is unused up to 720 hours. There is no conversion from hour 721-1000. Then there is a 10% credit for every hour above 1000.



FOR IMMEDIATE RELEASE

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**FIDELITY INVESTMENTS ESTIMATES \$215,000 NEEDED
TO COVER RETIREE HEALTH CARE COSTS**

**Rising Health Care Costs Could Consume as Much as 50 Percent
Of Retirees' Future Social Security Benefits**

BOSTON, March 27, 2007 – A 65-year-old couple retiring in 2007 will need approximately \$215,000¹ to cover medical costs in retirement², according to Fidelity Investments' latest health care cost estimate, released today. This figure is a 7.5 percent increase over the 2006 estimate of \$200,000.

The retiree health care cost estimate is calculated annually by Fidelity Investments. Since the estimate first was computed in 2002, the number has risen a total of 34 percent, with an average annual increase of 6.1 percent.

The 2007 estimate assumes individuals do not have employer-sponsored retiree health care coverage and includes expenses associated with Medicare Part B and D premiums³ (32%), Medicare cost-sharing provisions -- co-payments, co-insurance, deductibles and excluded benefits (35%) -- and prescription drug out-of-pocket costs (33%). It does not include other health-related expenses, such as over-the-counter medications, most dental services and long-term care.

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¹ Fidelity Consulting, 2007

² Assumes no employer-provided retiree health care coverage and life expectancies of 17 years for a male and 20 years for a female

³ Assumes use of Medicare Part D coverage

Since many retirees rely on Social Security as their primary source of income in retirement⁴, Fidelity also calculated the impact that a \$215,000 health care liability would have on a retiree's Social Security benefit. It found that a 65-year-old worker today, who is earning \$60,000 and decides to retire at the end of the year, should expect that 50 percent of his or her pre-tax Social Security benefit will be used to pay for personal health care expenses in the next 16 to 18 years.

“A significant amount of retirees told us their state of health is not good, they are spending more in retirement than they ever planned, and some were even forced into an early retirement due to health problems,” said Brad Kimler, senior vice president, Fidelity Employer Services Company, a division of Fidelity Investments. “But if today's workers act now to take greater advantage of the many retirement savings vehicles available to them, they can create a more secure and enjoyable retirement.”

Fidelity recommends that the first step every working American should take is to create an individual retirement plan. In building a plan, workers can factor in their specific circumstances such as current savings, anticipated income sources, lifestyle, expenses and likely health care needs in retirement.

New Laws Make Saving For Health Care Costs Easier

The Tax Relief and Health Care Act of 2006, enacted last December, brought important changes to the rules governing tax-advantaged Health Savings Accounts (HSAs). It created incentives for both employers and employees to better utilize HSAs in their respective efforts to help mitigate rising health care costs and save more for health care needs in retirement.

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⁴ Fidelity Research Institute, *2007 Retiree Survey*

The most significant changes include:

- Elimination of contribution limits that were previously tied to High Deductible Health Plan (HDHP) deductibles. In 2007, the new maximum contribution limits are \$2,850 for individuals and \$5,650 for families.
- The ability for employers to initiate a one-time rollover of funds from an individual's health Flexible Spending Account (FSA) or Health Reimbursement Arrangement (HRA) to an HSA.
- Setting of annual statutory contribution limits earlier in the year (June 1) so employers can better prepare for annual enrollment.

As of January 4, 2007, there were an estimated 3.6 million individual HSAs⁵ and that number is expected to grow to over 15 million by 2010⁶.

In addition to offering an HSA, employers should consider providing health guidance information and planning tools to their employees to help engage them in leading healthier lifestyles, understanding their personal health risks, and to equip them with strategies to better manage their current healthcare expenditures, while also planning for future health care costs.

New Tool Helps Employees Better Plan for Expected Costs

As of April 1, Fidelity will make available to employers a new tool to help employees plan toward their future health care liability. The tool enables employees to personalize, estimate and project their retiree health care costs based on such factors as age, expected retirement date, health conditions and available insurance coverage.

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⁵ Information Strategies Inc. (ISI)

⁶ Diamond Cluster, 2005

Using this tool, employees can determine whether they have saved enough to meet their estimated health care costs in retirement and also run savings models to determine their optimal annual HSA contribution amount. Employees can access this retiree health care cost planning tool via Fidelity's NetBenefits Web site and it is also available as part of the Fidelity HSASM.

About Fidelity Employer Services Company

Fidelity Employer Services Company (FESCO) is a division of Fidelity Investments. FESCO provides defined contribution and defined benefit retirement services, employer benefits and human resources administration, and payroll services to more than 20 million participants in the United States as of February 28, 2007.

About Fidelity Investments

Fidelity Investments is one of the world's largest providers of financial services, with custodied assets of \$3.0 trillion, including managed assets of more than \$1.4 trillion as of February 28, 2007. Fidelity offers investment management, retirement planning, brokerage, and human resources and benefits outsourcing services to more than 23 million individuals and institutions as well as through 5,500 financial intermediary firms. The firm is the largest mutual fund company in the United States, the No. 1 provider of workplace retirement savings plans, one of the largest mutual fund supermarkets and a leading online brokerage firm. For more information about Fidelity Investments, visit www.Fidelity.com.

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