

# SAN DIEGO CITY EMPLOYEES RETIREE MEDICAL TRUST

## FAQs #2

### Re: Option C Transfers from the City to the “Medical Expense Reimbursement Plan” of the Retiree Medical Trust

The San Diego City Employees Retiree Medical Trust is endorsed by the following organizations.



DEPUTY CITY ATTORNEYS  
ASSOCIATION OF SAN DIEGO

SINCE 2005

***THESE FREQUENTLY ASKED QUESTIONS DESCRIBE THE NEW “SAN DIEGO CITY EMPLOYEES RETIREE MEDICAL TRUST,” INTO WHICH THE CITY WILL DEPOSIT OPTION C TRANSFERS.***  
*(Note that any mandatory payroll transfer to the Trust will occur only if there is a vote of approval by your Association. This FAQs #2 addresses only the Option C Transfers.)*

#### PART A: INTRODUCTION TO THE RETIREE MEDICAL TRUST

<p><b>1) What is the Retiree Medical Trust and the “Medical Expense Reimbursement Plan”?</b></p>	<p>Several employee Associations representing employees of the City of San Diego established the “San Diego City Employees Retiree Medical Trust” (the “Trust”). The purpose of the Trust is to provide reimbursement toward the cost of certain retiree medical expenses of City retirees, pursuant to the “Medical Expense Reimbursement Plan (“Plan”) of the Trust. The Trust will hold your Option C Transfers until you retire and are eligible to withdraw the funds. You can then use the Option C Transfers to reimburse all or a portion of your medical expenses and premiums after you retire and are eligible for benefit payments.</p>
<p><b>2) Which Associations are participating in this Plan?</b></p>	<p>The following Associations are participating in this Plan: San Diego Police Officers Association (POA); San Diego Municipal Employees Association (MEA); Local 127, American Federation of State, County and Municipal Employees, District Council 36, AFL-CIO (AFSCME); San Diego City Lifeguards, California Teamsters Local 911; and Deputy City Attorneys Association of San Diego.</p>
<p><b>3) What is the legal structure of the Plan?</b></p>	<p>The Plan is considered a group health plan under federal law. Plan assets (i.e., contributions, deposits and earnings) are held in a trust, legally separate from the City and the Associations. A Board of Trustees, composed of members from the five participating Associations, and one Trustee elected by the non-bargaining unit employees participating in the Plan, controls and administers the Plan.</p> <p>The Trustees are charged with the fiduciary responsibility to administer the Plan for the “exclusive benefit” of the participating employees, retirees and their beneficiaries. If the Trustees fail to do so, they may be subject to civil and criminal penalties. All contributions and earnings into the Plan can be spent only on benefits and reasonable administrative expenses of operating the Plan.</p>

**PART B:  
PARTICIPATION AND BENEFITS AT A GLANCE**

<p><b>1) How do I become a Participant in the Plan?</b></p>	<p>Participation is automatic if you are an employee of the City of San Diego who is eligible for, and has elected, Option C pursuant to the terms of your Association’s Memorandum of Understanding (“MOU”) with the City. Non-bargaining unit employees (i.e., unrepresented classified and unclassified employees) who have elected Option C will participate through a Special Agreement that the City signs with the Trust.</p>
<p><b>2) What types of benefits are available to me under the Plan?</b></p>	<p>Your benefits from this Plan come in the form of reimbursement payments for certain medical costs, including medical insurance premiums and expenses, incurred after you are eligible for benefits. These are called “Covered Expenses” under the Plan (see Part B3 below for further information).</p>
<p><b>3) What are the Covered Expenses for which the Plan will reimburse me?</b></p>	<p>After you become an “Eligible Retiree” (see Part C below for eligibility requirements), you will be eligible for reimbursement of certain medical expenses called “Covered Expenses.” Covered Expenses are those expenses excludable from gross income under Internal Revenue Code Section 213(d), i.e., generally, the costs for the diagnosis, cure, mitigation, treatment, or prevention of disease or injury, which have not been claimed by you or another Beneficiary as a deduction on your personal tax return, nor reimbursed through insurance or otherwise.</p> <p>Covered Expenses include such things as co-pays, deductibles, medical expenses, and premiums for health insurance. This includes insurance for medical and/or hospital expenses, dental or vision care, hearing aids, and prescription drug or long-term care insurance. The premium can be reimbursed to you for a wide variety of health care plans, e.g., traditional insurance company for individual coverage, to your spouse’s employer plan for group coverage, Medicare premiums, Medigap policies, etc.</p> <p>You can find a complete description of “Covered Expenses” in IRS Publication 502, which can be found online at <a href="http://www.irs.gov/pub/irs-pdf/p502.pdf">www.irs.gov/pub/irs-pdf/p502.pdf</a>.</p>
<p><b>4) How much reimbursement will I receive from my Employee Account each month?</b></p>	<p>An Eligible Retiree with an Employee Account is considered an “Account Beneficiary,” and is entitled to reimbursement of covered medical expenses incurred at any time after separation from employment with the City. You can only be reimbursed up to the balance in your account. There is no monthly limit on reimbursement of Covered Expenses from an Employee Account -- that is, you may use part or all of the remaining balance for reimbursement during any month.</p> <p>Any balance remaining upon your death may be used by your Surviving Spouse, Surviving Children, or surviving Qualifying Relatives (IRS dependents) for Covered Expenses, as described above in B3.</p>
<p><b>5) When will benefits end?</b></p>	<p>When your Employee Account reaches a zero balance, your reimbursement benefits from your Employee Account in the Plan will terminate.</p>
<p><b>6) How do I make a claim for benefits?</b></p>	<p>You must present your claims to the Trust Office (see Part E of this document for contact information) with your proof of Covered Expense payment, on a form supplied by the Trust Office, within certain deadlines that will be set by the Trustees. If you disagree with the decision of the Trust Office on your claim, the Plan will have hearing procedures for appeal of the claims decision to the Board of Trustees.</p>

**PART C:  
 EMPLOYEE INVESTMENT SELECTIONS**

<p><b>1) How are my Option C Transfers invested within the Plan?</b></p>	<p>The City will deposit your Option C Transfers to the Plan, according to the terms of the Association MOU or Special Agreement that applies to you. The Trust Office will credit the Option C Transfers to the recordkeeping Employee Account in your name, and give you the choice to select amongst five investment portfolios shortly after payment of your Option C Transfers to the Plan. The five investment portfolios are described in item C2 of this document. You must select one of these Portfolios for investment of all of your Option C Transfers at the time of your initial Option C deposit to the Plan. You cannot split your Option C Transfers between several investment portfolios. If you do not timely return your selection form with your choice to the Trust Office, your Option C Transfers will be deposited to the default investment selection, which is the Conservative Strategy Portfolio.</p>
<p><b>2) What are the underlying assets in the investment Portfolios?</b></p>	<p>The investment Portfolios of the Trust, with their approximate asset allocations<sup>1</sup> are as follows:</p> <p><b>Option 1: Cash Management Portfolio</b>        Asset allocation = 100% money market or CDs        Risk level = minimal</p> <p><b>Option 2: Fixed Income Portfolio</b>        Asset allocation = 100% fixed income        Risk level = low</p> <p><b>Option 3: Conservative Strategy Portfolio</b>        Initial asset allocation = 21% stocks and 79% fixed income        Risk level = mild</p> <p><b>Option 4: Moderate Strategy Portfolio</b>        Initial asset allocation = 37% stocks; 60% fixed income; and 3% commodities        Risk level = moderate</p> <p><b>Option 5: Balanced Strategy Portfolio</b>        Initial asset allocation = 56% stocks; 40% fixed income; and 4% commodities        Risk level = higher than Option 4</p> <p>The Trust Office will provide you more detailed "Portfolio Descriptions" when it is time for you to make your investment selection. The Board of Trustees has selected a professional investment manager, Syrios Wealth Management Group of Wells Fargo Advisors, to manage the underlying assets in each of the above-listed portfolios, and to give advice to the Board of Trustees regarding investment of Plan assets in the Portfolios. The Portfolio Descriptions include the <u>initial</u> assets for each portfolio. These Portfolio Descriptions are presented only as a description of the initial assets; the underlying assets may change over time according to the investment manager's advice. While the specific assets may change over time, the investment manager will maintain the approximate stock and fixed income allocation indicated above, as well as the overall risk strategy indicated for the initial asset allocation.</p>

<sup>1</sup> These asset allocations are approximate. The Board of Trustees will authorize a range in which the Trust's investment manager will have tactical discretion to vary the percentage of a particular asset class within a Portfolio, e.g. +/- 10% for stocks.

<p><b>3) What investment fees are charged against my Employee Account?</b></p>	<p>The investment manager retained by the Board of Trustees of this Retiree Medical Trust charges 0.25% (1/4 of 1%) of assets annually as an advisory fee for managing and maintaining the asset allocations of the Plan investments. The manager will be selecting mutual funds, exchange-traded funds (ETFs) and/or separately managed accounts of private money managers in which to invest the Portfolio, and there will be internal fees and expenses charged for the Portfolio. These internal fees and expenses will vary depending upon the assets held in each Portfolio. See Attachment B to this FAQ for an example of the fees for each investment selection.</p>
<p><b>4) What returns have the investment Portfolios earned in the past?</b></p>	<p>Please see Attachment C for the past performance (through September 30, 2011) of the assets selected for initial investment of each Portfolio of this Plan. Keep in mind that past performance is not necessarily an indicator of future performance. Also, the net returns on Attachment C are the returns after the internal fund fees and the 0.25% investment management fee have been charged.</p> <p>Attachment A gives examples of longer-term (10-25 years) historical returns for funds with similar, but not identical, asset allocations to the Plan's investment Portfolios. (That is, the asset allocations in the Plan Portfolios, which are described in Attachment B to these FAQs, differ slightly from the asset allocations of the Funds listed in Attachment A; but the Trustees wanted to show you long-term returns of index funds with similar asset allocation to the Plan's Portfolios.) The actual returns of the Plan's Portfolios for the last five years are listed in Attachment C.</p>
<p><b>5) How and when do I make my investment selections?</b></p>	<p>When the Plan receives the first deposit of your Option C Transfers from the City, the Trust Office will send you investment selection materials, including an Investment Selection Form. You can select your investment by completing the Investment Selection Form and returning it to the Trust Office. You will also be permitted to change your investment selection annually using the same form. Investment selection changes outside of the regular annual selection period will be assessed a \$20 fee.</p> <p>The Trust Office will keep a recordkeeping account of your Option C Transfers, called an Employee Account. The Employee Account will include your Option C Transfers, along with your share of investment returns and losses, and a monthly or quarterly deduction for administrative fees.</p>

**PART D:  
TAX ADVANTAGES**

<p><b>1) How is the Plan funded?</b></p>	<p>The Plan will be funded by Option C Transfers, as set forth in the applicable MOUs and Special Agreement. All contributions into the Plan are pre-tax dollars and will not be included in your taxable income for the year of the contribution. The advantages of tax-free earnings and compound interest also make it possible for there to be significant appreciation on the Plan assets, which an employee could not obtain with his or her own savings plan.</p>
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<p><b>2) What are the tax advantages of this type of Plan?</b></p>	<p>The Plan is structured to obtain three separate tax breaks:</p> <ol style="list-style-type: none"> <li>1. Option C Transfers deposited to the Plan are not taxable wages;</li> <li>2. The Plan assets will accrue earnings on a non-taxable basis; and</li> <li>3. Your benefit payments will not be taxed when you receive them.</li> </ol> <p>This means that, under current tax law, the Option C Transfers to the Plan should never be taxed. This is a significant advantage over other types of benefit plan, e.g., pension plan benefits and 457 plan distributions are taxed to the retiree upon receipt during retirement.</p>
<p><b>3) May I elect whether to deposit my Option C Transfers into the Plan, like a cafeteria or a 457 plan?</b></p>	<p>No. Once you select Option C and satisfy the eligibility requirements, the City must deposit your Option C Transfers into the Plan. There is no opportunity to receive the Option C Transfers in cash. The tax advantages of this Plan depend on the absence of individual election for cash. <u>The IRS sets this requirement</u>, not the City, the bargaining unit or the Trustees. The City will deposit 100% of your Option C Transfers to the Plan upon eligibility pursuant to the requirements for Option C in your MOU or Special Agreement.</p>

**PART E:  
ADMINISTRATION OF THE PLAN**

<p><b>1) What is the Board of Trustees?</b></p>	<p>The Board of Trustees (the “Board” or “Trustees”) is a legal entity created by the Trust Agreement, which was adopted by the sponsor Associations. The Board is comprised of six Trustees, with one Trustee selected by each of the sponsor Associations, and one Trustee elected by the non-bargaining unit employees participating in the Plan. The Trustees are charged with the responsibility to control and administer the Plan, and are considered the fiduciaries of the Plan by state and federal law. Among other things, this means the Trustees must act solely in the interests of all Plan participants. If the Trustees fail to do so, they may be subject to civil and criminal penalties. All Option C Transfers and earnings on those funds can be spent only on Plan benefits and administrative expenses.</p> <p>The Board is responsible for the administration of the Plan, although it can delegate certain responsibilities. For example, the Board has retained a professional investment manager to provide advice regarding investment of Plan assets; and the Board has retained a third party administrator to handle day-to-day recordkeeping and to pay claims.</p>
<p><b>2) Who can become a Trustee?</b></p>	<p>There will be six voting Trustees:</p> <ul style="list-style-type: none"> <li>• The five sponsor Associations have each selected one Trustee, according to their own internal rules for selecting Trustees; and</li> <li>• The non-bargaining unit employees participating in the Plan will elect one Trustee.</li> </ul> <p>The Board of Trustees will administer an election for the non-bargaining unit Trustee when the Trustees have sufficient contact information for the non-bargaining unit employees selecting Option C and participating in the Plan.</p>

<p><b>3) How much are Trustees paid?</b></p>	<p>Trustees are generally not compensated for their services to the Plan, but will be reimbursed for their expenses in administering the Plan. All work performed by Trustees is volunteered. If a participating Association chooses to select an Independent professional Trustee (instead of one of their own members), who requires compensation or reimbursement of expenses for his or her services as a Trustee, then the Employee Accounts of that Association's members will be debited for those expenses.</p>
<p><b>4) Do Trustees handle all day-to-day aspects of the Plan, such as claims and investments?</b></p>	<p>No. In order to prudently administer the Plan, the Board of Trustees has retained professional third party service providers, including an investment manager, third party administrator, attorney and accountant.</p>
<p><b>5) What are the costs/fees for administration of the Plan?</b></p>	<p>After your Option C Transfers are deposited to the Plan, the Trust Office will charge \$2.75 per month to your Employee Account for the services that the Trust Office provides to the Plan in handling the day-to-day administration of the Plan, including but not limited to, information requests, allocation of investment earnings/losses to the Employee Accounts, financial reports to the Trustees, maintenance of Employee Account balances, processing of benefit claims and benefit payments, administration of the investment selection process and distribution of informational materials and legal documents.</p> <p>There are also fees paid to the investment manager (see part C3 above), and various miscellaneous fees paid for plan administration (e.g., to the Plan attorney and auditor), which vary from year to year.</p>
<p><b>6) Whom do I contact with questions regarding the Plan, change of address, or other administrative questions about the Plan?</b></p>	<p>Day-to-day administration is handled by the Trust Office. The Trust Office is an excellent resource and provides important services to the Plan. For example, to find out your current Employee Account balance, submit any benefit claims, request a copy of the Plan or notify the Plan of a change in address, you should contact the Trust Office. The contact name and address is:</p> <p style="text-align: center;"><b>San Diego City Employees Retiree Medical Trust c/o McGregor &amp; Associates, Inc, Attn: Ms. Virginia Lewis 8885 Rio San Diego Drive, Suite 300 San Diego, CA, 92108 Phone: (888) 276-0250 Fax: (619) 260-9144</b></p>

**7) When can I meet with the Trust Office personnel and investment manager in person to ask questions and get more information?**

The Plan will be holding **informational meetings for all San Diego City employees** at the San Diego Police Officers Association Office at **8388 Vickers St.** on the following dates and times:

Date	Time
Thursday January 19	8:00am – 9:00am
Thursday January 19	12:00pm-1:00pm
Thursday January 19	5:00pm – 6:00pm
Monday January 23	8:00am – 9:00am
Monday January 23	12:00pm – 1:00pm
Monday January 23	5:00pm – 6:00pm

The Plan's professional investment managers and Trust Office personnel will be in attendance at these meetings to explain the Plan operations and investment options and answer your questions.

*This "Frequently Asked Questions" (FAQ) document has been designed to provide you with key information about the Medical Expense Reimbursement Plan of the "San Diego City Employees 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. Any conflict between this FAQs and the Plan or the Trust Agreement will be resolved in favor of the formal Plan document and the Trust Agreement. A copy of the most up-to-date Plan document and Trust Agreement will be available from the Trust Office; see Part E above for contact information.*

## **PLAN SERVICE PROVIDERS**

### **Trust Office**

McGregor & Associates, Inc.  
8885 Rio San Diego Drive, Suite 300  
San Diego, CA, 92108  
Phone: (888) 276-0250

### **Investment Manager**

The Syrios Wealth Management Group of Wells Fargo Advisors  
888 Prospect St., Suite 301  
La Jolla, CA 92037

### **Legal Counsel**

Saichek Law Firm APC  
2445 Fifth Avenue, Suite 332  
San Diego, CA 92101

## **BOARD OF TRUSTEES**

Randy Levitt, Chairman (SDPOA)  
Phone: (619) 573-5438

Debra Bevier, Secretary (DCAA)  
Phone: (619) 533-5826

Tony Ruiz, Trustee (MEA)  
Phone: (619) 980-7332

James Gartland (Lifeguards)  
Phone: (619) 980-4560

Franklin Lambert (AFSCME)  
Phone: (619) 417-2773



## ATTACHMENT A to FAQs #2

### Historical Returns<sup>2</sup> for Long-Term Investment in Certain Asset Allocations

**(Returns listed below are the historical returns of investment funds with similar asset allocations to the Portfolios described on Attachment C of these FAQs.)**

<b>Fund</b>	<b>Asset Allocation</b>	<b>10 year return<sup>3</sup></b>	<b>20 year return<sup>4</sup></b>	<b>Comparable Plan Portfolio<sup>5</sup></b>
Citigroup 3-month T-bill	Cash	1.92%	3.33%	Option 1: Cash Management
Barclays Capital U.S. Intermediate Credit	100% fixed income	5.71%	6.79%	Option 2: Fixed Income
Dow Jones Conservative Global	20% stock and 80% fixed income	6.19%	6.43%	Option 3: Conservative Strategy
Dow Jones Moderately Conservative Global	40% stock and 60% fixed income	6.34%	7.05%	Option 4: Moderate Strategy
Dow Jones Moderate Global	60% stock and 40% fixed income	6.64%	7.51%	Option 5: Balanced Strategy

<sup>2</sup> Historical returns do not necessarily predict future returns. Past performance is no guarantee of future results.

<sup>3</sup> These returns are for the index funds listed in the far left column and do not include a deduction for investment management fees.

<sup>4</sup> These returns are for the index funds listed in the far left column and do not include a deduction for investment management fees.

<sup>5</sup> The asset allocations in the Plan Portfolios, which are described in Attachment B to these FAQs, differ slightly from the asset allocations of the Funds listed in this chart.

## **ATTACHMENT B to FAQs #2**

### **INVESTMENT FEE SUMMARY**

### **FOR THE PORTFOLIOS<sup>6</sup> THAT WILL BE AVAILABLE FOR THE SAN DIEGO CITY EMPLOYEES RETIREE MEDICAL TRUST**

**Option 1: Cash Management Portfolio (100% money market or CDs)**  
**NO FEE**

**Option 2: Fixed Income Portfolio (100% fixed income)**  
**Madison Intermediate Fixed Income**  
**Estimated Total Fee<sup>7</sup> = .55%**

**Option 3: Conservative Strategy Portfolio ( approx. 21% stocks and 79% fixed income)**  
**Passive – Strategic ETF Portfolio Moderate Income**  
**Estimated Total Fee = .58%**

**Option 4: Moderate Strategy Portfolio (approx. 37% stocks and 60% fixed income with small allocation to commodities fund)**  
**Passive – Ibbotson Strategic ETF Conservative Growth and Income**  
**Estimated Total Fee = .54%**

**Option 5: Balanced Strategy Portfolio (approx. 56% stocks and 40% fixed income, with small allocation to commodities fund)**  
**Passive- Ibbotson Strategic ETF Moderate Growth and Income**  
**Estimated Total Fee = .55%**

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<sup>6</sup> The Exchange Traded Funds (ETFs) and Mutual funds in the Plan Portfolios with stock allocations have a prospectus which contains more detailed information about the assets and can be obtained by calling the Trust Office.

<sup>7</sup> “Estimated Total Fee” listed in this Attachment B includes those fees related to investment, e.g., the 0.25% paid to the Plan’s investment manager, and the internal fund fees and expenses charged for the Portfolio.

## ATTACHMENT C to FAQs #2

### **PAST PERFORMANCE SUMMARY**

**FOR THE PORTFOLIOS THAT WILL BE AVAILABLE FOR THE SAN DIEGO CITY EMPLOYEES RETIREE MEDICAL TRUST, LISTED IN ATTACHMENT B<sup>8</sup>.**

#### **Option 1: Cash Management Portfolio**

**Current Return for money market 0.01%; Return for CDs up to 1.0%.**

#### **Option 2: Fixed Income Portfolio:**

	1 year	3 year	5 year	10 year
<b>Net Return After Fees</b>	<b>2.54%</b>	<b>6.30%</b>	<b>5.73%</b>	<b>4.44%</b>

#### **Option 3: Conservative Strategy Portfolio:**

	1 year	3 year	5 year	Since inception (4/05)
<b>Net Return After Fees</b>	<b>2.11%</b>	<b>7.36%</b>	<b>3.98%</b>	<b>4.46%</b>

#### **Option 4: Moderate Strategy Portfolio:**

	1 year	3 year	5 year	Since inception (4/05)
<b>Net Return After Fees</b>	<b>1.04%</b>	<b>4.04%</b>	<b>2.98%</b>	<b>4.04%</b>

#### **Option 5: Balanced Strategy Portfolio:**

	1 year	3 year	5 year	Since inception (4/05)
<b>Net Return After Fees</b>	<b>-0.36%</b>	<b>3.18%</b>	<b>1.77%</b>	<b>3.62%</b>

*NOTE: Recently, the market downturn has resulted in outperformance in more conservative portfolios that have a higher allocation in bonds. Portfolios with a higher allocation towards stocks have historically exhibited superior performance over the long term. However, please note there would normally be more volatility in the portfolios that have a higher allocation towards stocks than bonds. Representatives from the Trust's investment manager at Wells Fargo Advisors will be available at several employee meetings to answer questions about the Trust's Portfolios.*

<sup>8</sup> Net returns reported in this Attachment C include deductions for the internal fund fees and the Trust's investment management fee described in this FAQs #2, Part C3.