

## Frequently Asked Questions

*The following questions and answers are for review purposes only and do not provide all the details of the Plan. Exact specifications are provided in the Plan Document. If there are discrepancies between the information provided here and the Plan Document, the terms of the Plan Document will prevail.*

### Q: What is a MERP?

A: A MERP (Medical Expense Reimbursement Plan) is a benefit plan providing reimbursement toward health insurance premiums and medical expenses for retirees.

### Q: What is the WSCFF MERP?

A: It is a tax-sheltered plan in which members' pre-tax contributions are pooled, invested in a tax-free fund, and provide a tax-free lifetime benefit for the reimbursement of qualifying medical expenses after retirement. The plan was specifically developed by the Washington State Council of Fire Fighters (WSCFF) and endorsed by the IAFF to assist IAFF Local members with their retirement health care expenses.

### Q: What are the benefits of joining the IAFF MERP?

A: It is specifically designed to assist firefighter members with retirement health care expenses. It is a tax-free investment – contributions, investment earnings, and benefits are tax-free. Members are able to take advantage of a large pooled investment fund with access to institutional investment opportunities. This large investment fund is professionally invested without the need for individual members to actively manage investments in an individual account. In addition, retirement funds invested in an individual account should be managed more conservatively after you start drawing from the individual account for retiree healthcare expenses. The IAFF MERP pooled investment fund continues to receive contributions from younger active employees during your retirement,

which allows a more aggressive investment allocation over a longer time horizon than you can safely invest your own individual account after retirement. This allows a higher monthly benefit level than you could safely achieve with your own individual account investments. The monthly benefit level also provides a lifetime<sup>1</sup> monthly benefit, while an individual account might run out if not carefully managed.

**Q: What are the contribution requirements of the IAFF MERP?**

A: There can be no individual selection for contribution amounts. To participate, all members of the bargaining unit or eligible class must make the same level of contributions. So, individual members cannot contribute more or less than other members of their bargaining unit and individual members cannot opt out of contributions. Monthly benefits are based upon the benefit formula and the amount of contributions made on a member's behalf during employment. The monthly benefit level is useful to reimburse medical, dental, and/or vision premiums, or pay co-pays and deductibles; the monthly benefit level is not likely to be sufficient for very large out-of-pocket medical expenses. However, a higher contribution level during active employment results in a higher benefit level after retirement.

**Q: How does the IAFF MERP work?**

A: All members of a participating bargaining unit make monthly contributions to the IAFF MERP during active employment. After retirement, retirees access a monthly benefit for reimbursement of medical expenses up to their monthly benefit level. Each retiree's monthly benefit level is unique and dependent on the total contributions made during his or her employment. Members that contribute for a longer period of time and at a higher monthly contribution rate will have a higher monthly benefit level.

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<sup>1</sup> The IAFF MERP is currently written to provide benefits for Eligible Retirees until death. However, the Trustees reserve the right to modify or terminate benefits as necessary to preserve the financial stability of the Plan.

**Q: Does every member of the Local have to participate?**

A: No, but every member of the identified bargaining unit or eligible class must participate. You can designate the bargaining unit or eligible class in your collective bargaining agreement. For example, you might provide that only new hires will contribute to the Trust or only employees hired after a particular date will contribute. You could also provide a different contribution level for different classes of employees, as long as there is not a higher contribution level for management employees.

**Q: Can a Local have more than one identified unit or class?**

A: Yes.

**Q: What if my Local doesn't have collective bargaining or meet and confer?**

A: There must be some type of collective bargaining agreement that designates the contribution levels and makes them mandatory for all members in the bargaining unit or identified class.

**Q: Who is eligible for benefits?**

A: Those members who have participated/contributed for at least sixty (60) months in the MERP; and separate from service with all Participating Employers; and are a minimum of age 53. If you qualify for a retirement or disability retirement prior to age 53 per your state's guidelines, you do have the option to take an early, actuarially reduced benefit level. There is also a survivor benefit for spouses and IRS defined children. Benefits are suspended to members that go back to work with any MERP Participating Employer after retirement, even as part-time or temporary employees. However, MERP will record and accumulate those unused benefits during your re-employment and you can start using the accumulated "bank" of benefits after your full retirement.

**Q: How is the monthly benefit level calculated?**

A: After your retirement, your total Active Service Units are calculated and that total is multiplied by an actuarial factor called the Unit Multiplier (UM) to determine your monthly benefit level.

$$\text{Monthly Benefit Level} = \text{Total ASUs} \times \text{Current Unit Multiplier}$$

**Q: How do I earn Active Service Units (ASUs)?**

A: A member actively working for a participating Local makes monthly contributions in multiples of \$25, and each \$25 monthly contribution on your behalf equals one (1) Active Service Unit. For additional information on ASUs, see the Navigating MERP PowerPoint.

**Q: Can I make additional contributions to the MERP to increase my benefit level?**

A: No, the IRS mandates that there can be no individual election for contributions due to the highly tax favored status of the Plan. Contributions to the MERP are defined by the bargaining unit or eligible class and must be the same for all members.

**Q: What is the monthly contribution amount?**

A: The minimum monthly amount is \$75/month. The identified unit or class can choose to increase their contribution in multiples of \$25. There is no maximum contribution level, except for management employees who cannot contribute more than the regular firefighter employees.

### Q: Are there any other sources of contributions to MERP?

A: Yes. Your collective bargaining agreement can also provide that all members of the bargaining unit or eligible class will transfer a designated percentage of accrued sick and/or vacation leave to MERP at retirement or annually. Leave transfers to MERP are also transferred pre-tax and are converted to ASUs to increase that member's monthly benefit after retirement or the member has the option to deposit the leave transfer to the accumulated benefit "bank." Note that there can be no option for members to receive the designated portion of accrued leave as cash, but you could designate, for example, that 50% of accrued leave is transferred to MERP and 50% is cashed out to the member.

### Q: What happens if I separate from service before I earn five (5) years of Active Service?

A: If you separate from service without earning at least sixty (60) months of Active Service (i.e., less than 60 months of contributions to MERP), you are considered a "limited beneficiary" and can receive reimbursement of Covered Expenses until you have recouped back all of the contributions made on your behalf. Benefits to limited beneficiaries start immediately after separation from service. However, if your contributions stop due to termination of employment, retirement, or reduction of hours, you can self-pay with after tax contributions through COBRA for up to 18 months to reach sixty (60) months of Active Service or to increase your monthly benefit level. Sick leave or vacation leave transfers to MERP are also converted into "Active Service Units" and Active Service (36 ASUs per year of Active Service) and may allow you to reach at least sixty (60) months of Active Service for eligibility.

### Q: What type of medical expenses will be reimbursed by the Plan?

A: Please refer to *IRS Publication 502* for the list of eligible expenses for yourself and your family. Generally, tax deductible medical expenses are reimbursable by MERP.

**Q: What are the current plan assets?**

A: Just over \$200 million and growing by approximately \$1,000,000/month.

**Q: How are the plan assets invested?**

A: Professionally managed and invested approximately 70% in the stock market and 30% in bonds and bond equivalents with a target rate of return of 6.75% over a 20-year horizon.

**Q: Has the plan ever changed the Unit Multiplier?**

A: Yes, three (3) times since inception. The first was a reduction after the large stock market losses in 2008. A second reduction was in 2012 when the investment performance assumption was reduced from 7.5% to 7.0%. The most recent change was an increase in July of 2015. The Trust has an actuary review the plan every three (3) years to ensure the Unit Multiplier is set at a level which will allow the plan to remain viable.

**Q: Is my benefit guaranteed?**

A: Like most deferred compensation plans and all defined contribution retirement vehicles, your benefit is not guaranteed. The Unit Multiplier (UM) of this Plan can and will change over time, even after you retire and are accessing a benefit. In other words, once you retire, if the UM goes up, your monthly benefit will increase. The contrary is true as well. The Trustees reserve the right to modify the terms of the Plan to preserve the financial stability of the Trust.

**Q: My Local has reviewed the information and wants to participate, now what?**

A: Contact Becky Wallen with DiMartino Associates at [becky@dimarinc.com](mailto:becky@dimarinc.com)

*\*For questions not covered in this FAQ or the Navigating MERP ppt, contact Becky Wallen at DiMartino Associates*