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NOTICE TO PARTICIPANTS

TO: Eligible Retirees in the Medical Expense Reimbursement Plan
of the Central Valley Retiree Medical Trust

FROM: Board of Trustees, Central Valley Retiree Medical Trust

RE: Prohibition on Reimbursement of Premiums Paid with Pre-tax Income

DATE: December 16, 2022

This Notice contains important information about your rights and benefits under the Medical Expense Reimbursement Plan (the “Plan”) of the Central Valley Retiree Medical Trust (the “Trust”). Please file it with your important documents.

A. Prohibition on Reimbursement of Premiums Paid with Pre-Tax Income.
Premiums paid with pre-tax income are not eligible for reimbursement through the Plan. “Pre-tax” payment means that you paid the premium with income that is not taxable to you, i.e., the premium amount was deducted from your income prior to taxation. For example, your spouse’s employer deducted the cost of the insurance premium from your spouse’s salary or wages prior to calculating the spouse’s taxable income (like from a cafeteria plan). Thus, the amount of your spouse’s income deducted for this premium payment will not be reported on a W-2 form and will not be taxable income to you or your spouse.¹

We have determined that some Plan participants may have submitted premiums for reimbursement that were paid with pre-tax income. IRS Publication 502, available at <https://www.irs.gov/pub/irs-pdf/p502.pdf>, specifically indicates that premiums which are not included in your income on your Form W-2, are not tax-deductible medical expenses. This Plan only reimburses tax-deductible medical expenses; if this Plan reimbursed your pre-tax premiums as a nontaxable benefit, the IRS would take the position that you received a double tax benefit by obtaining two deductions for the same item on your income tax return. For example, the income used to pay the premium amount was not taxed when it was deducted from your spouse’s income, and once again, the premium payment wouldn’t be taxed if this Plan reimbursed you for it. Accordingly, we cannot reimburse retirees for these premiums, as it would be a double-tax benefit. This Notice is issued to provide advanced warning to retirees that the Trust Office will be issuing claim

¹ Another example is premiums paid thru the HELPS Act, which currently allows you to direct \$3,000 of your pension income to health care premiums without paying tax on that income. See Section B.

denials if premium documentation indicates that the insurance premium was paid “pre-tax” or “tax deferred.”

It is your responsibility to avoid double tax deductions on your personal income tax return. If you have paid the insurance premium with pre-tax dollars or will deduct the premium on your personal income tax return, you cannot submit it for reimbursement from this Plan. Any resulting IRS penalties or taxation are your own responsibility.

If your premiums were paid out of pocket with post-tax dollars, then you can submit those premium payments for reimbursement. The prohibition against reimbursement applies only to premiums paid pre-tax from salary or wages, or deducted on your personal income tax (see information on HELPS Act for public safety retirees below).

B. Healthcare Enhancement for Local Public Safety Officers (HELPS) Act. Premiums deducted from taxable income by public safety retirees pursuant to the Healthcare Enhancement for Local Public Safety Officers (HELPS) Act are also not reimbursable from this Plan. This Act currently permits public safety officers to direct \$3,000 from their pension directly to their healthcare insurance provider for insurance premiums. Public safety officers are allowed to allocate this \$3,000 of pension payments to insurance premiums as non-taxable income on their personal income tax return, which would then prohibit the public safety retiree from seeking reimbursement for this same \$3,000 from this Plan. You can find further information about the HELPS Act on page 6 of IRS Publication 575 at: <https://www.irs.gov/pub/irs-pdf/p575.pdf>.

C. Alternative Ways to Use Your Benefit From This Trust. The Trustees want you to fully use your benefits from this Trust. If you cannot claim your monthly Trust benefits for reimbursement of pre-tax premiums, we urge you to seek other medical expenses on which to spend your benefits, e.g., dental and vision care expenses, co-pays, or deductibles. Further, the Plan allows you to carryover unused benefits for future use on other expenses.

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If you have any questions about this Notice or would like a copy of the Summary Plan Description, or the full Plan, please contact the Trust Office at phone: (213) 406 - 2347 or email centralvalley@bpabenefits.com. Please keep this Notice with your Summary Plan Description for future reference.

NOTE: This Notice is designed to explain certain legal requirements of the Medical Expense Reimbursement Plan. However, it does not provide all the details and limitations of the Plan. Exact specifications are provided in the Medical Expense Reimbursement Plan of the Central Valley Retiree Medical Trust,” restated effective January 1, 2021, and as amended thereafter, which will prevail in case of conflict with this Notice. Please keep this Notice with your Summary Plan Description, as an update to that document.