BULLETIN REGARDING LUMP SUM TRANSFER ELECTION:

CONVERSION TO ACTIVE SERVICE UNITS
OR
DEPOSIT TO INDIVIDUAL ACCOUNT
AND INVESTMENT OPTIONS

The purpose of this Bulletin is to explain the conversion and Individual Account options in the IAFF Medical Expense Reimbursement Plan (hereafter, the "Plan") of the Washington State Council of Fire Fighters Employee Benefit Trust.

You recently received a "Lump Sum Transfer" to the Plan from the Employer on your behalf. This Bulletin provides important information regarding your rights to elect an investment selection or conversion for this transfer.

ACTIVE EMPLOYEES: As an active employee, you must convert the entire amount of this Lump Sum Transfer into either: (i) Active Service Units ("ASUs") to increase your future Monthly Benefit Level;[1] or (ii) a credit to the balance of an Individual Account. The Trust Office will implement your election for the full amount of the Lump Sum Transfer (i.e., you *cannot* elect to convert only a portion of the Lump Sum Transfer to ASUs). If you do not respond by the deadline, a default selection will be implemented on your behalf. If you already have an Individual Account, you do not have a right to select a new investment option for your account balance at this time. The Plan provides an investment selection period when your account is first established and annually, usually in April, when you can select or change your investment option.

SEPARATING/RETIRING PARTICIPANTS: As a separating or retiring participant, you may elect to convert all or a portion of this Lump Sum Transfer and/or your current Individual Account balance to pay for COBRA contributions and purchase additional months of Active Service in order to attain eligibility for the monthly benefit or increase your Monthly Benefit Level. Five years of Active Service are required to attain eligibility for the lifetime Monthly Benefit Level from IAFF MERP. Retiring participants converting a portion of their Lump Sum Transfer and/or Individual Account balance for COBRA contributions must submit a COBRA Election Form included with the COBRA Notice and Retiree Packet mailed from the Trust Office. If you meet eligibility requirements, your Retiree Packet will estimate Monthly Benefit Levels using your Lump Sum Transfer for COBRA and converting the remaining balance to Active Service Units. You can request quotes of other scenarios from the Trust Office.

Please read this Bulletin carefully; this Bulletin was designed to provide detailed information about your options in order for you to determine if conversion or an Individual Account is appropriate for your situation.

A. Increasing Your Monthly Benefit Level Through CONVERSION

The reason you might want to convert your Lump Sum Transfer to ASUs is to increase your Monthly Benefit Level after you retire (provided you achieve eligibility for the monthly benefit). This is because your Monthly Benefit Level is calculated based on how much you have contributed to the Plan over your career. So, ASUs earned from conversion of Lump Sum Transfers can be added to the ASUs you earned from payroll contributions to increase your Pooled Account monthly benefit.

[1] Active employees cannot earn years of Active Service through conversion.

Active employees can exercise this election now, or annually during the Investment Selection period, which is normally in April, or at retirement/separation from employment. It is important for you to note that: (i) an election is irrevocable after the Trust Office receives your signed Lump Sum Transfer Investment Selection Form (the "Selection Form"), and (ii) the applicable conversion calculation formula is more favorable to you at a younger age due to the increased time for investment before drawing benefits. The cost per ASU via conversion is generally lower at a younger age. Please go to https://iaffmerp.org to view the Lump Sum Transfer Conversion Table.

NOTE ABOUT TIMING OF CONVERSION ELECTION: If you elect conversion now during active employment, you will *not* receive additional years of Active Service toward eligibility for the monthly benefit. If you instead elect to credit the Lump Sum Transfer to your Individual Account and you have not attained eligibility through monthly payroll and COBRA contributions at retirement or separation from employment, then you can convert all, or a portion, of your Individual Account balance and any leave transfer funds received by the Trust at your retirement/separation in order to attain sufficient years of Active Service for eligibility for the monthly benefit.[2] Conversion of the Lump Sum Transfer now, while actively employed with a Participating Employer, **will not** increase your years of Active Service, but conversion **will** increase your Monthly Benefit Level by increasing your total ASUs, and depending upon your age, the ASUs may be significantly lower in cost than at retirement/separation.

Retiring participants converting all or a portion of their Lump Sum Transfer and/or Individual Account funds for COBRA contributions or to increase or attain a monthly benefit MUST exercise this election now. You will not have another opportunity. If conversion of your Lump Sum Transfer will allow you to meet eligibility requirements for a monthly benefit, your Retiree Packet will estimate Monthly Benefit Levels using a portion of your transfer for COBRA and converting the remaining balance to Active Service Units.

Deadline for Investment Selection. **If you are an active employee**, the Selection Form is due to the Trust Office within **30 days** of the date on the Notice of Investment Selection Period letter mailed to you separately. **If you are a separating participant**, the Selection Form is due to the Trust Office within **60 days** of the date on the Notice of Investment Selection Period letter mailed to you as part of your Retiree Packet. If your Selection Form is not received at the Trust Office by the deadline, the default selection will be implemented on your behalf.

Default Selection. If the Trust Office does not receive a completed Selection Form from you within 30 days for active employees or 60 days for separating participants of the Mailing Date of the Notice of Investment Selection Period cover letter to you related to your Lump Sum Transfer, then the Trust Office will implement the default selection. The default selection is based on your age on the day after the deadline for selection. If you do not respond and you are 40 years or older, the Trust Office will credit the entire Lump Sum Transfer to an Individual Account held by the Trust for you (see Section B2 below for more information). If you are under age 40, the Trust Office will use the current Leave Conversion Table to convert the Lump Sum Transfer to ASUs. The default selection is irrevocable on the day after the Selection Form deadline.

[2] Note that retirement/separation from employment is the *only* time when you can (1) convert less than your entire Individual Account balance and/or leave transfer, and (2) receive additional years of Active Service toward attaining eligibility for monthly benefits from conversion of your Lump Sum Transfer funds. When you retire, the Trust Office can help you determine the Lump Sum Transfer conversion amount required for you to attain the minimum Active Service eligibility threshold for monthly benefits.

B. Deposit Your Lump Sum Transfer to an INDIVIDUAL ACCOUNT

The Plan maintains a recordkeeping account, called the "Individual Account," for participants under various circumstances. Specifically, the Plan maintains an Individual Account for the following funds: Lump Sum Transfers of accrued sick and/or vacation leave (at retirement or throughout your active service) that are not converted to Active Service Units; and other employer lump sum contributions, such as Option C for San Diego participants.

Your selection of an investment option for your Lump Sum Transfer to an Individual Account will affect the investment return and risk on your Individual Account balance and may positively or negatively affect the balance in your Individual Account. You should read this Bulletin carefully and obtain independent investment advice if you wish. You can only make an investment selection upon establishment of your Individual Account and once per year during the 30-day investment selection period (generally in April), so it is important to read this Bulletin and return the Selection Form indicating your portfolio selection by the deadline.

<u>Options available for Individual Account Investment Selection.</u> Choose an Option based on your individual situation. You should read the descriptions below and choose an investment option that suits your particular health care situation after your retirement. You are entitled to choose the investment option in which to invest the assets that are credited to your Individual Account, but the underlying investments (e.g., individual stocks and bonds), will be chosen and adjusted from time to time by the fund manager. Also, in making your selection, you should be aware that the volatility for an investment option generally rises as the percentage of stock allocation becomes greater. You will be given the opportunity to change your investment option annually. If no selection is made, your funds will be invested in the default investment, which is based on your age (see Part B2 below).

<u>Target Date Funds</u>. Target date funds will gradually transition from more aggressive to conservative asset allocations as the target date approaches, without any action on your part. The progression from more aggressive to conservative asset allocation is called the glidepath. You do not need to change your investment option as your retirement date (or other date of need for benefits) approaches, because the fund manager will adjust the asset allocation with the target date in mind. You only need to select a new investment option if your life situation changes making the target date inappropriate for you (e.g., your expected retirement date changes or your expected medical needs change). A glidepath chart is provided on the IAFFMERP.org website; the glidepath is the same for all of the target date fund options in that each target date fund attains approximately 50% equities in the target date year. The Vanguard Target Retirement Income Fund is a static fund that does not change its allocation over time; approximately 7 years after the target date is reached for a dated target date fund, the fund manager will transfer all assets to the Vanguard Target Retirement Income Fund.

a) First American Institutional Prime Obligations Fund

The First American Institutional Prime Obligations Fund (ticker symbol: FPIXX) invests in high-quality short-term debt obligations, including securities issued by the U.S. government, commercial paper, and non-convertible corporate debt securities designed to maximize current income, preserve capital, and maintain liquidity. This is a very conservative investment option and should not be expected to earn any significant investment returns. The investment returns on this investment option may not exceed the administrative maintenance fee and it is intended for participants who have minimal risk tolerance and/or who will be spending the funds in the near future. The annual investment cost for this investment option, including internal fund expenses and investment advisory fees, is estimated at 0.30%, sometimes called

30 basis points ("bp"). The investment fund fees are disclosed in the fact sheet for the First American Institutional Prime Obligations Fund, which is available on the IAFFMERP.org website. The fund fees are charged against returns by the fund manager prior to reporting the returns.

b) Dodge & Cox Income Fund

The Dodge & Cox Income Fund (ticker symbol: DODIX) will be invested 100% in a diversified allocation of fixed income investments. Generally, this investment option is a somewhat more aggressive investment than the First American Institutional Prime Obligations Fund but is generally less aggressive than the investment options with allocations to stocks. This investment option is designed for participants with a modest risk tolerance or those who will be spending the funds and exhausting their Individual Account within the next few years. This investment option is intended to offer a potentially higher yield than the First American Institutional Prime Obligations Fund but can experience moderate changes in value from period to period and can experience negative returns on occasion. The annual investment cost for the Dodge & Cox Income Fund, including internal fund expenses and investment advisory fees, is estimated at 0.41% or 41bp, which are disclosed in the fact sheet for the Dodge & Cox Income Fund, which is available on the IAFFMERP.org website. The fund fees are charged against returns by the fund manager prior to reporting the returns.

c) Vanguard Target Retirement Income Fund

The Vanguard Target Retirement Income Fund (ticker symbol: VTINX) is an investment that is somewhat more aggressive in its allocation than the Dodge & Cox Income Fund. The Vanguard Target Retirement Income Fund allocates some assets to stocks, which makes it more aggressive and more volatile than the Dodge & Cox Income Fund. However, due to the allocation of some assets to stocks, the Vanguard Target Retirement Income Fund also has a higher return potential than the DODIX. As of December 31, 2023, the asset allocation of this investment option was approximately 29.80% equity and 70.20% fixed income. This is a static investment portfolio with a target asset allocation of approximately 30% equity and 70% fixed income. This investment option is intended for participants who intend to begin using the funds in their Individual Account soon and exhaust their Individual Account within 4–10 years. If you will retire soon, but do not expect to use the funds in your Individual Account upon retirement (e.g., because of medical coverage from a spouse, etc.), then you might choose an investment option with a longer time horizon, such as the Vanguard Target Retirement 2030 Fund. The annual investment cost for the Vanguard Target Retirement Income Fund, including internal fund expenses and investment advisory fees, is estimated at 0.08% or 8bp; which is disclosed in the fact sheet for the Vanguard Target Retirement Income Fund, which is available on the IAFFMERP.org website.

d) Vanguard Target Retirement 2030 Fund

The Vanguard Target Retirement 2030 Fund (ticker symbol: VTHRX) is a target date fund that is somewhat more aggressive in its allocation than the Vanguard Target Retirement Income Fund. Because it is a target date fund, the allocation of assets will change over time. The fund manager will periodically adjust the asset allocation to become more conservative as the target date year 2030 nears. As of December 31, 2023, the target asset allocation was 63.1% equity and 36.9% fixed income. This investment option is for participants who intend to retire in or around the year 2030, begin using the funds in their Individual Account at that time and/or exhaust their Individual Account within 10 years of the target date. If you will retire earlier than 2030 but do not expect to use the funds in your Individual Account upon retirement (e.g., because of medical coverage from a spouse, etc.), you may choose this investment option based upon the date that you expect to start using the funds (or exhaust your account) rather than your retirement date. The annual investment cost for the Vanguard Target Retirement 2030 Fund, including internal fund expenses and investment advisory fees, is estimated at 0.08% or 8bp, which is disclosed in the fact sheet for the Vanguard Target Retirement 2030 Fund, which is available on the IAFFMERP.org website.

e) Vanguard Target Retirement 2040 Fund

The Vanguard Target Retirement 2040 Fund (ticker symbol: VFORX) is a target date fund that is somewhat more aggressive in its allocation than the Vanguard Target Retirement 2030 Fund. Because it is a target date fund, the allocation of assets will change over time. The fund manager will periodically adjust the asset allocation to become more conservative as the target date year 2040 nears. As of December 31, 2023, the target asset allocation was 77.9% equity and 22.1% fixed income. This investment option is for participants who intend to retire in or around the year 2040, begin using the funds in their Individual Account at that time and/or exhaust their Individual Account within 10 years of the target date. If you will retire earlier than 2040 but do not expect to use the funds in your Individual Account upon retirement (e.g., because of medical coverage from a spouse, etc.), you may choose this investment option based upon the date that you expect to start using the funds (or exhaust your account) rather than your retirement date. The annual investment cost for the Vanguard Target Retirement 2040 Fund, including internal fund expenses and investment advisory fees, is estimated at 0.08% or 8bp, which is disclosed in the fact sheet for the Vanguard Target Retirement 2040 Fund, which is available on the IAFFMERP.org website.

f) Vanguard Target Retirement 2050 Fund

The Vanguard Target Retirement 2050 Fund (ticker symbol: VFIFX) is a target date fund that is somewhat more aggressive in its allocation than the Vanguard Target Retirement 2040 Fund. Because it is a target date fund, the allocation of assets will change over time. The fund manager will periodically adjust the asset allocation to become more conservative, with less equities, as the target date year 2050 nears. As of December 31, 2023, the target asset allocation was 90.4% equity and 9.6% fixed income.

This investment option is intended for new hires and participants who intend to retire in or around the year 2050, begin using the funds in their Individual Account at that time and/or exhaust their Individual Account within 10 years of the target date. If you will retire earlier than 2050 but do not expect to use the funds in your Individual Account upon retirement (e.g., because of medical coverage from a spouse, etc.), you may choose this investment option based upon the date that you expect to start using the funds (or exhaust your account) rather than your retirement date. This is the most aggressive investment option offered at this time. If you expect to retire after 2050, you will have the option to move the funds in your Individual Account to a Vanguard Target Retirement 2060 Fund in approximately 10 years. The annual investment cost for the Vanguard Target Retirement 2050 Fund, including internal fund expenses and investment advisory fees, is estimated at 0.08% or 8bp, which is disclosed in the fact sheet for the Vanguard Target Retirement 2050 Fund, which is available on the IAFFMERP.org website.

Fact sheets that describe each of the investment options outlined above are available on the IAFFMERP.org website. Each of these investment options is a publicly traded investment and you can use the ticker symbols listed to further research these funds. A glidepath chart is also provided in the New Individual Account Investment Selection packet on the IAFFMERP.org website; the glidepath is the same for all of the target date funds listed above and attains approximately 50% equities in the target date year.

In selecting the investment option for investment of your Individual Account, you should consider the application of the investment option's characteristics to your individual situation. For example, you may consider such items as your expected retirement date, the date you expect to start using the funds in your Individual Account to reimburse medical expenses, the date you expect to exhaust the funds in your Individual Account, your risk tolerance, and other assets and income available to you for payment of medical expenses. We also suggest you seek the advice of your personal investment advisor or accountant.

1. Effective Date of Investment Selection. In order for your investment selection to be implemented on the 1st of the next month, the Trust Office must receive your Selection Form by the 15th of the month. If the Trust Office receives your Selection Form after the 15th of the month, your investment selection will be implemented on the 1st of the second month following receipt. For example, a Selection Form received on July 15 will be effective on August 1; a Selection Form received on July 16, will be effective on September 1. You will not begin accruing investment returns on your Individual Account until your funds are actually invested.

2. Default Selections. If you do not return the Selection Form to the Trust Office by the deadline, your Individual Account will be invested in the default selection based on your age on the date that the default selection is implemented, as stated below:

a. Under Age 40. If the Employee is under age 40, the Trust Office will convert the full amount of the Lump Sum Transfer to Active Service Units on behalf of the Employee, and no Individual Account will be established.

b. If the Employee or Eligible Retiree is age 40 or older, the Trust Office will credit the full amount of the Lump Sum Transfer to the Employee's or Eligible Retiree's Individual Account and invest the Individual Account based upon your age on the date of the default, as stated in the chart below.

Age	Corresponding Target Date Fund	Ticker Symbol
51 or older	Vanguard Target Retirement Income Fund	VTINX
41-50	Vanguard Target Retirement 2030 Fund	VTHRX
40	Vanguard Target Retirement 2040 Fund	VFORX

Your next opportunity to select an investment option will be during the IAFF MERP's annual investment selection period, which is expected to occur in April, with new investment selections effective July 1.

3. Note Regarding Administrative Maintenance Fees Charged to Individual Employee Accounts. All plan participants share the costs of operating the IAFF MERP (e.g., auditing, claims administration, insurance, legal advice, etc.) The Pooled Account generally pays all operating expenses. However, Account Beneficiaries with an Individual Account who are not currently participating in the Pooled Account (either through current monthly contributions or monthly benefits) are required to pay an administrative maintenance fee deducted from the Individual Account balance to pay for their proportionate share of the operating expenses of the IAFF MERP. Based upon the estimated costs to operate the IAFF MERP, the Trustees have set the administrative maintenance fee for Limited Beneficiaries, *who do not have any participation in the Pooled Account*, at $8 per month, effective August 1, 2023. Other Account Beneficiaries with an Individual Account, who are also currently participating in the Pooled Account, are required to pay an administrative maintenance fee that reflects the extra costs of administering individual accounts. These Account Beneficiaries with an Individual Account, *who are also currently participating in the Pooled Account*, will be assessed an administrative maintenance fee of $3 per month for the costs of maintaining the Individual Account, effective August 1, 2023.[3] The Trust Office will show the administrative maintenance fee as a line item in the Individual Account transactions on the IAFF MERP web portal.[4]

C. <u>Difference Between Monthly Pooled Account Benefits and Individual Account Benefits</u>

1. <u>Monthly Pooled Account Benefits</u>. The Monthly Benefit Level from the Pooled Account in the Plan is <u>generally funded by your regular payroll contributions</u> to the Trust, set in your collective bargaining agreement. The Monthly Benefit Level is set with the intention for the monthly benefits to last for your lifetime.[5] That is, the Pooled Account in the Plan reimburses you for up to a set amount each month.[6]

The advantage of the Pooled Account benefit is that it is designed to last for your lifetime. The disadvantage of the Pooled Account benefit is that it may not cover your entire medical expenses and premiums in any given month. For example, if your monthly premium cost exceeds your Monthly Benefit Level, then you must pay the remainder of your monthly premium out of pocket.

2. <u>Individual Account Benefits</u>. Your Individual Account is generally funded by: (i) Lump Sum Transfers from employers, including leave transfers, unless conversion to ASUs is elected; (ii) future Retiree Contributions, if included in your bargaining agreement; and (iii) investment earnings (and losses). You can spend your Individual Account as quickly as you like (as long as you have medical expenses to reimburse). The advantage of the Individual Account is that there is no monthly limit on benefit payments and so it is useful for reimbursement of a large medical expense. You could also use the Individual Account balance to reimburse the remainder of your monthly premium that exceeds your Monthly Benefit Level. In addition, your Surviving Spouse can use your Individual Account balance for reimbursement of large medical expenses and premiums after your death until the Individual Account balance reaches zero. The disadvantage of the Individual Account is that it may run out during your (and your spouse's) lifetime.

You can qualify for both an Individual Account and a Pooled Account monthly benefit under the Plan, although you will not receive a monthly benefit until you meet certain eligibility requirements (e.g., cease employment with the Employer (i.e., retire), attain sufficient years of Active Service, etc.).

If you are: (i) age 40 years or older and want to convert your entire Lump Sum Transfer to ASUs; **<u>or</u>** (ii) under age 40 and want to deposit your entire Lump Sum Transfer to your Individual Account, you can use the Selection Form on the Trust website for that purpose.

[3] This is because participants in the Pooled Account pay their portion of the IAFF MERP operating expenses through payment of operating expenses from the Pooled Account. However, there are extra administrative expenses needed to operate Individual Accounts that participants in the Pooled Account, who do not have an Individual Account, are not required to subsidize.

[4] The Trustees have the authority to adjust the administrative maintenance fee up or down at any time based upon the actual operating expenses of the IAFF MERP. The Trustees also have the authority to determine whether to charge the administrative maintenance fee monthly, quarterly or annually.

[5] The Plan is currently written to provide benefits for Regular Beneficiaries until death. However, this is not guaranteed. The Trustees reserve the right to modify, limit, or terminate benefits as necessary to preserve the financial soundness of the Plan.

[6] The monthly benefit payments are not guaranteed at a particular level; the Board of Trustees reserves the right to adjust the Unit Multiplier (for calculating Monthly Benefit Levels) up or down at any time for some or all current and/or future Beneficiaries.

D. Election is Irrevocable

The election to either convert your Lump Sum Transfer to ASUs or deposit it to your Individual Account is an *irrevocable election*; the election cannot be modified by you in any way after you submit the Selection Form (enclosed) to the Trust Office.

If you elect to convert your Lump Sum Transfer to ASUs, when your election is received at the Trust Office, the Trust Office will transfer the amount of the Lump Sum Transfer to the Pooled Account. The Trust Office will then convert your transferred funds into ASUs using the applicable Conversion Factor in the Lump Sum Conversion Table located on the website at https://iaffmerp.org. The date that your Selection Form is received at the Trust Office is important for determining the number of ASUs that you receive for your Lump Sum Transfer, because that date determines the applicable Conversion Factor.

E. Instructions for Making Election

Making your Investment Selection. You received the Notice of Investment Selection Period (the "Notice") because you recently received a Lump Sum Transfer to IAFF MERP and now you must select one of the above-mentioned investment options. To make your election, complete and sign the Selection Form and return it to the Trust Office at the address or email printed on the Form, before the deadline. The Selection Form is due to the Trust Office within 30 days of the date on the Notice of Investment Selection Period for active employees or 60 days for separating participants. Please return the Selection Form to the Trust Office at the following address, email, or fax number:

IAFF MERP Trust Office
c/o Benefit Programs Administration
1200 Wilshire Blvd, 5th Floor
Los Angeles, CA 90017
Email: IAFFMERP@bpabenefits.com

For questions or a copy of the current Lump Sum Transfer Conversion Table and Selection Form, you can also contact the Trust Office Benefit Programs Administration at (844) 353-7839 or IAFFMERP@bpabenefits.com

NOTE: THIS INFORMATIONAL BULLETIN IS NOT INTENDED AS INVESTMENT ADVICE. PLEASE CONSULT A QUALIFIED INVESTMENT ADVISOR FOR INVESTMENT ADVICE IN MAKING YOUR INVESTMENT DECISIONS.