SOUTHERN CALIFORNIA FIREFIGHTERS BENEFIT TRUST

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**INFORMATIONAL BULLETIN for the
PORTFOLIO SELECTION FORM
in the
EMPLOYEE ACCOUNT INVESTMENT SELECTION PACKET
of the
MEDICAL EXPENSE REIMBURSEMENT PLAN
April 2021**

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A. INTRODUCTION

The purpose of this Bulletin is to explain the different investment Portfolios available to you for investment of the funds credited to your Employee Account of the Southern California Firefighters Benefit Trust (hereafter the "Trust"). <u>You should have received along with this Bulletin the "Portfolio Selection Form," which you need to submit to the Trust Office within 30 days from the date on the enclosed cover letter -- see Part C of this Bulletin for details</u>. Also included in the packet are: a cover letter summarizing the investment selection process; and the most recent Quarterly Investment Manager Report on historical returns (also available on the Trust website at www.FirefighterTrust.org).

Your selection of an investment Portfolio for your Employee Account will affect the investment return and risk on your account balance and may positively or negatively affect the balance in your Employee Account. You should read this Bulletin carefully and obtain independent investment advice if you wish. <u>You may only make your investment selection once per year, so it is important to read this Bulletin and return the Portfolio Selection Form by the deadline</u>.

All participants with an Employee Account in the Plan currently have six options (or "Portfolios") for investment of the funds contributed to the Employee Account. Unless you choose to convert 100% of your Employee Account funds to Active Service Units, you should choose one of these options for investment of your Employee Account.

<u>Background</u>. This Trust was established to hold the money that you and other employees have contributed during employment for medical expenses after retirement.[1] The Board of Trustees, made up of your fellow firefighters, has adopted the "Medical Expense Reimbursement Plan" (hereafter, the "Plan"), which sets forth the rules for obtaining reimbursement towards your retiree medical expenses. The Plan will reimburse you for post-retirement covered medical expenses (such as co-pays, deductibles, and health insurance premiums) that you have paid after becoming an "Eligible Retiree" as defined in the Plan.[2]

Employee Accounts. The Plan maintains a recordkeeping account, called the "Employee Account," for participants under various circumstances. Specifically, the Plan maintains an Employee Account for each participant for whom the following events have occurred: transfers of accrued leave are deposited (at retirement or throughout your active service); employer lump sum contributions are deposited, such as Option C for San Diego participants; and/or unused pooled account benefits are rolled over. You will also have an Employee Account, if you separate from employment without meeting the eligibility requirements for pooled account monthly benefits. The purpose of this Bulletin is to give you information for directing the investment of that Account.[3]

Note re account maintenance fees. All plan participants share the costs of operating the Trust, e.g., auditing, claims administration, insurance, legal advice, etc. The Pooled Account generally pays all operating expenses. However, Employee Account holders, Limited Beneficiaries, who are not currently participating in the Pooled Account[4] (through current contributions on your behalf or monthly benefits from the Pooled Account), are assessed an account maintenance fee deducted from the Employee Account balance to pay for operating expenses of maintaining the Employee Account. Based upon the estimated costs to operate the Trust, the Trustees set the administrative fee at $20 per quarter, effective March 1, 2018.[5] The Trust Office will show the maintenance fee as a line item on your Employee Account statement.

B. PORTFOLIOS AVAILABLE FOR INVESTMENT SELECTION

Target Date Portfolios. First, we want to briefly explain the idea of a "Target Date Portfolio." The Target Portfolios are designed for a particular target date when the Retiree intends to exhaust the funds in the Employee Account for medical expense reimbursement. The Target Portfolios will gradually transition from more aggressive to conservative asset allocations as the Target date approaches, without any action on your part. You do not need to change your Portfolio as your retirement date (or other date of need that you select) approaches, because the investment manager will adjust the Target Date Portfolio asset allocation with the target date in mind. You only need to select a new Portfolio 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.

Choose a Portfolio based on your individual situation. You should read the descriptions below and choose a Portfolio that suits your particular retirement plans and health care situation. You are entitled

[1] Contributions are made pursuant to a mandatory requirement in your bargaining group's MOU.
[2] The purpose of this Bulletin is to explain your investment options for your Employee Account within the Plan. For more explanation of the benefits offered by the Plan and eligibility requirements, you may request a copy of the Summary Plan Description or the entire "Medical Expense Reimbursement Plan of the Southern California Firefighters Benefit Trust" from the Trust Office.
[3] You may also receive regular monthly benefits from the pooled account of the Plan, depending on how long contributions were made to the Plan on your behalf.
[4] This is because participants in the Pooled Account pay their portion of the operating expenses through payment of operating expenses from the Pooled Account.
[5] The Trustees have the authority to adjust the monthly administrative fee up or down at any time based upon the actual operating expenses of the Trust.

to choose the Portfolio in which to invest the assets that are credited to your Employee Account,[6] but the underlying investments, e.g., individual stocks and bonds, will be chosen and adjusted from time to time by the Trust's professional investment manager. Also, in making your selection, you should be aware that the volatility for a Portfolio generally rises as the percentage of stock allocation becomes greater. You will be given the opportunity to change your Portfolio selection annually. **If no selection is made, your funds will be invested in the default investment, which is the Conservative Growth Portfolio for new Employee Accounts, or your current investment for previously established Employee Accounts.**

1) *Money Market Portfolio*.

The Money Market Portfolio will be invested 100% in a money market fund designed to maintain a constant price and generate yields competitive with other similar instruments. This is a very conservative Portfolio and should not be expected to earn any significant investment returns. The investment returns on this Portfolio may not exceed the administrative maintenance fee. This Portfolio 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 the Money Market Portfolio, including internal fund expenses and investment advisory fees, is estimated at 0.25% of your Employee Account balance; sometimes called 25 basis points ("bp").[7] The investment costs are charged against returns prior to allocating those returns to your Employee Account.

2) *Bond Portfolio*

The Bond Portfolio will be invested 100% in a diversified allocation of fixed income investments. Generally, this Portfolio is a somewhat more aggressive investment than the Money Market Portfolio. This Portfolio is designed for participants with a modest risk tolerance or those who will be spending the funds and exhausting their Employee Account in the next several years. This Portfolio is intended to offer a potentially higher yield than the Money Market 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 Bond Portfolio, including internal fund expenses and investment advisory fees, is estimated at 0.53% or 53bp.[8] The investment costs are charged against returns prior to allocating those returns to your Employee Account.

3) *Conservative Growth Portfolio*

The Conservative Growth Portfolio is an investment that is somewhat more aggressive in its allocation than the Bond Portfolio. The Conservative Growth Portfolio has a target allocation of assets to stocks, which makes it more aggressive and more volatile than the Bond Portfolio. However, due to the allocation of some assets to stocks, the Conservative Growth Portfolio also has a higher return potential than the Bond Portfolio. The Conservative Growth Portfolio has a target asset allocation of 25% equity, 65% fixed income and 10% cash. This is not a target date fund; the target asset allocation will remain relatively constant over time and will not become more conservative over time. The investment manager

[6] When a retiree's or survivor's quarter end Employee Account balance drops to $1000.00 or less, the Trust Office will stop allocating quarterly investment returns to the Employee Account for the following quarter. However, the Trust Office will allocate quarterly investment returns to all Employee Accounts of **actively** employed participants regardless of the Employee Account balance.

[7] The annual cost estimate is based on the costs from the prior plan year. The actual investment cost could change throughout the year as the investment manager adjusts the portfolio composition.

[8] The annual cost estimate is based on the costs from the prior plan year. The actual investment cost could change throughout the year as the investment manager adjusts the portfolio composition.

will adjust the allocation to stocks within +/- 5% of the target. This Portfolio is intended for participants who intend to begin using the funds in their Employee Account soon and exhaust their Employee Account within 4-10 years. If you will retire soon but do not expect to use the funds in your Employee Account on retirement (e.g., because of medical coverage from a spouse, etc.), then you might choose an investment selection with a longer time horizon, such as the Target 2030 Retirement Portfolio. The annual investment cost for the Conservative Growth Portfolio, including internal fund expenses and investment advisory fees, is estimated at 0.50% or 50bp.[9] The investment costs are charged against returns prior to allocating those returns to your Employee Account.

4) *Target 2030 Retirement Portfolio*

The Target 2030 Retirement Portfolio is a target date fund that is somewhat more aggressive in its allocation than the Conservative Growth Portfolio. Because it is a target date fund, the allocation of assets will change over time. The Trust investment manager will periodically adjust the asset allocation to become more conservative. The Target 2030 Retirement Portfolio started in January 2009 with a target asset allocation of 80% equity and 20% fixed income. As of July 1, 2021, the target asset allocation will be 36% equity and 64% fixed income.[10] The Trust investment manager will gradually adjust the asset allocation with a goal of reaching nearly 0% equity within one year of the target date year 2030. This Portfolio is for participants who intend to retire in or around the year 2030, begin using the funds in their Employee Account at that time, and/or exhaust their Employee Account within 3 years of the target date. If you will retire earlier than 2030 but do not expect to use the funds in your Employee Account upon retirement (e.g., because of medical coverage from a spouse, etc.), you may choose this Portfolio 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 Target 2030 Retirement Portfolio, including internal fund expenses and investment advisory fees, is estimated at 0.48% or 48bp.[11] The investment costs are charged against returns prior to allocating those returns to your Employee Account.

5) Target 2040 Retirement Portfolio

The Target 2040 Retirement Portfolio is a target date fund that is somewhat more aggressive in its allocation than the Target 2030 Retirement Portfolio. Because it is a target date fund, the allocation of assets will change over time. The Trust investment manager will periodically adjust the asset allocation to become more conservative. The Target 2040 Retirement Portfolio started in March 2016 with a target asset allocation of 80% equity and 20% fixed income. As of July 1, 2021, the target asset allocation will be 62% equity and 38% fixed income.[12] The Trust investment manager will gradually adjust the asset allocation with a goal of reaching nearly 0% equity within one year of the target date year 2040. This Portfolio is for participants who intend to retire in or around the year 2040, begin using the funds in their Employee Account at that time, and/or exhaust their Employee Account within 3 years of the target date. If you will retire earlier than 2040 but do not expect to use the funds in your Employee Account upon retirement (e.g., because of medical coverage from a spouse, etc.), you may choose this Portfolio based upon the date that you expect to start using the funds (or exhaust your account) rather than your retirement date. The annual

[9] The annual cost estimate is based on the costs from the prior plan year. The actual investment cost could change throughout the year as the investment manager adjusts the portfolio composition.
[10] The investment manager has been given the tactical ability to increase or decrease the stock allocation in the Target 2030 Retirement Portfolio within +/- 10% of the target allocation.
[11] The annual cost estimate is based on the costs from the prior plan year. The actual investment cost could change throughout the year as the investment manager adjusts the portfolio composition.
[12] The investment manager has been given the tactical ability to increase or decrease the stock allocation in the Target 2040 Retirement Portfolio within +/- 10% of the target allocation.

investment cost for the Target 2040 Retirement Portfolio, including internal fund expenses and investment advisory fees, is estimated at 0.50% or 50bp.[13] The investment costs are charged against returns prior to allocating those returns to your Employee Account.

6) Target 2050 Retirement Portfolio

The Target 2050 Retirement Portfolio is a target date fund that is somewhat more aggressive in its allocation than the Target 2040 Retirement Portfolio. Because it is a target date fund, the allocation of assets will change over time. The Trust investment manager will periodically adjust the asset allocation to become more conservative. The Target 2050 Retirement Portfolio started in June 2020 with a target asset allocation of 80% equity and 20% fixed income. As of July 1, 2021, the target asset allocation will be 77% equity and 23% fixed income. [14] The Trust investment manager will gradually adjust the asset allocation with a goal of reaching nearly 0% equity within one year of the target date year 2050.

This Portfolio is intended for new hires and participants who intend to retire in or around the year 2050, begin using the funds in their Employee Account at that time, and/or exhaust their Employee Account within 3 years of the target date. If you will retire earlier than 2050 but do not expect to use the funds in your Employee Account upon retirement (e.g., because of medical coverage from a spouse, etc.), you may choose this Portfolio 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 Portfolio offered at this time. If you expect to retire after 2050, you will have the option to move the funds in your Employee Account to a Target 2060 Retirement Portfolio in approximately 10 years.[15] The annual investment cost for the Target 2050 Retirement Portfolio, including internal fund expenses and investment advisory fees, is estimated at 0.48% or 48bp.[16] The investment costs are charged against returns prior to allocating those returns to your Employee Account.

C. MAKING YOUR INVESTMENT PORTFOLIO SELECTION

You are receiving the enclosed Portfolio Selection Form for one of two reasons. One, you recently received deposits to an Employee Account established on your behalf; or two, it is the annual investment selection period during which you can change your investment selection. In both cases, **you must complete and return the enclosed Portfolio Selection Form to the Trust Office no later than 30 days after the date on the cover letter** included with this packet in order for the Trust Office to implement your investment selection. Please return the Portfolio Selection Form to the Trust Office at the following address or upload it directly to the Trust Office through the Dropbox on the Trust website at www.FirefighterTrust.org:

Southern California Firefighters Benefit Trust Office
c/o Benefit Programs Administration
1200 Wilshire Blvd. Fifth Floor
Los Angeles, CA 90017

[13] The annual cost estimate is based on the costs from the prior plan year. The actual investment cost could change throughout the year as the investment manager adjusts the portfolio composition.
[14] The investment manager has been given the tactical ability to increase or decrease the stock allocation in the Target 2050 Retirement Portfolio within +/- 10% of the target allocation.
[15] The Trust investment manager will advise the Trustees on the best timing to add a new Portfolio (Target Date 2060) for new hires.
[16] The annual cost estimate is based on the costs from the prior plan year. The actual investment cost could change throughout the year as the investment manager adjusts the portfolio composition.

In selecting the Portfolio for investment of your Employee Account, you should consider the application of the Portfolio's characteristics to your individual situation. For example, you should consider such items as your expected retirement date, the date you expect to start using the funds in your Employee Account to reimburse medical expenses, the date you expect to exhaust the funds in your Employee 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.

Effective Date of Investment Selection. Please refer to the appropriate effective date below, based on your situation:

> *1) Annual Investment Selection Period.* If you are receiving this packet during the annual investment selection period, which is generally in April/May, then the Trust Office will allocate your Employee Account funds to your new investment selection by July 1st.

> *2) New Employee Account or New Transfer to Employee Account (outside annual investment selection period).* If you are receiving this packet because you received a new transfer of funds to your Employee Account (either to a new or existing account), then your investment selection will be implemented based upon the date received by the Trust Office. If your Portfolio Selection Form is received by the Trust Office on or before the 25th day of the month, then the Trust Office will move the funds in your Employee Account to your investment selection by the first day of the month immediately following the month the Portfolio Selection Form was received/date stamped by the Trust Office. If your Portfolio Selection Form is received by the Trust Office after the 25th day of the month, then the Trust Office will move the funds in your Employee Account to your investment selection by the first day of the second month following the month the Portfolio Selection Form was received/date stamped by the Trust Office.

Default Selections. For participants with pre-existing Employee Accounts, if you do not return a completed Portfolio Selection Form to the Trust Office by the deadline above, your Employee Account will remain invested in the same Portfolio as invested previously.

If you have a new Employee Account and do not return the Portfolio Selection Form to the Trust Office by the deadline, your Employee Account will be invested in the default selection, which is currently the Conservative Growth Portfolio.

If you did not return the Portfolio Selection Form to the Trust Office when your Employee Account was initially established, your Employee Account was invested in the default selection in effect at that time and will continue to be invested in that default selection until you return the Portfolio Selection Form to choose a new investment. Please log into the participant portal at www.FirefighterTrust.org to view your current investment selection.

Participants with existing Employee Accounts (and no new deposits) can change their Portfolio investment selection only one time per year, generally in April, by filling out a new Portfolio Selection Form. If you have any questions about completing the Portfolio Selection Form, please contact the Trust Office at (844) 353-7839.

Note: This Informational Bulletin is not intended as investment advice. Please consult a qualified investment advisor for investment advice in making your investment decisions.