



**2023 MSRS Presentation**

# Who we are



## Minnesota State Retirement System

**State Employee  
Pension Plans**

**Health Care  
Savings Plan  
(HCSP)**

**Deferred  
Compensation Plan  
(MNDCP)**



Health Care Savings Plan

# Sample health care costs

Amount needed to cover retiree health insurance<sup>1</sup> to age 90



Anita retires  
age 66



Sarah retires  
age 62

Retiree Only	Retiree & Spouse
\$149,760	\$299,520
\$185,220	\$396,504

*For illustrative purposes only*

*SOURCE: MSRS 2023*

*<sup>1</sup>Based on SEGIP health insurance cost of \$770/month retiree; \$2,264/month for retiree & spouse from age 62 to age 65. \$355/month SEGIP supplemental insurance and \$165/month Medicare Part B for retiree & spouse from age 65 to age 90.*

# What is the HCSP?

A **tax-free** savings account

- ✓ **Tax-free** contributions
- ✓ **Tax-free** potential growth
- ✓ **Tax-free** reimbursements
- ✓ **No** Social Security, Medicare or income taxes

Reimburse **post-employment** health care expenses for employee, spouse, legal tax dependents, and children up to 26<sup>th</sup> birthday.

**NOTE:** Your Social Security benefit may be slightly reduced because no FICA tax is collected on contributions

# Tax-free matters

## Taxable Cash Payout

Severance payment	\$10,000
Federal Income Tax	2,200
State Income Tax	680
FICA Tax	765

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<b>Net cash payment</b>	<b>\$6,355</b>
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## Tax-Free HCSP Payout

Severance payment	\$10,000
Federal Income Tax	0
State Income Tax	0
FICA Tax	0

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<b>Net cash payment</b>	<b>\$10,000</b>
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*For illustrative purposes only*

*This hypothetical example assumes a 22% federal withholding rate + 6.80% state withholding rate + 7.65% FICA (Social Security and Medicare) tax rate. Individual tax rates will vary based on total taxable income and filing status for the year.*

# Eligibility for participation



## Participation MUST be...

- negotiated in union contract  
or
- included in personnel policy  
for non-union employees



## Participation CANNOT be...

- individual choice—group participation must be specified in union contract or personnel policy

# Investment Default



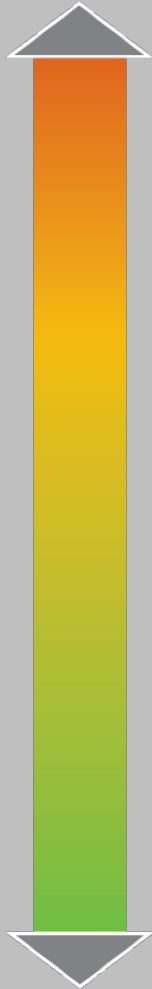
# Money Market Fund

- Seeks to maintain the value of a participant's original investment
- Seeks to earn interest that is competitive with short-term interest rates
- Plan expenses may exceed earned interest

*You could lose money by investing in a money market, it cannot guarantee it will do so. An investment in the fund is not insured or guaranteed. Although the fund seeks to preserve the value of your investment at \$1 per share by the Federal Deposit Insurance Corporation or any other government agency. The fund's sponsor has no legal obligation to provide financial support to the fund, and you should not expect that the sponsor will provide financial support to the fund at any time.*



*Higher Risk  
Potential Reward*



*Lower Risk  
Potential Reward*

# Investment options

T. Rowe Price Small Cap Stock Fund

Vanguard Total International Stock Index Fund

Vanguard Mid Cap Index Fund

Vanguard Total Stock Market Index Fund

Vanguard Dividend Growth Fund

Vanguard Balanced Index Fund

Dodge & Cox Income Fund

Vanguard Total Bond Market Index Fund

Stable Value Fund

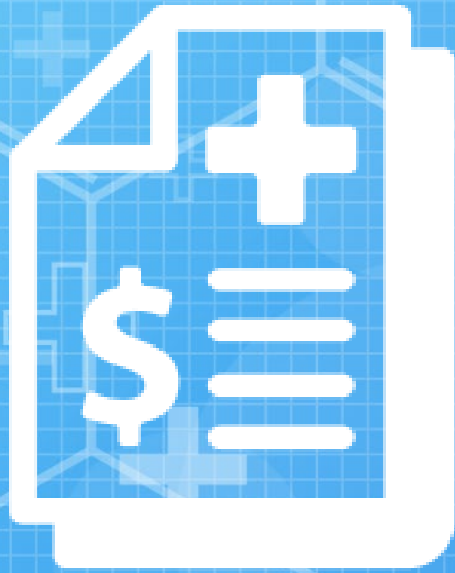
*FOR ILLUSTRATIVE PURPOSES ONLY* The chart reflects the expected relative risk/return potential over the long-term. Past performance is not a guarantee of future results.

# Investment Disclosure

*Please consider the investment objectives, fees and expenses carefully before investing. The prospectus and/or disclosure documents contain this and other important information about the investments offered through your plan. To obtain a prospectus or disclosure document, or to learn more about the investment options, visit **[www.msrs.state.mn.us](http://www.msrs.state.mn.us)** or call 800-657-5757. Read such materials carefully before investing.*

*No investment is 100% risk free. You can incur loss of principal by investing. There is no assurance that investing will ensure a profit or protect against loss.*

*Foreign investments involve special risks, including currency fluctuation, taxation differences and political developments. Equity securities of small and mid-sized companies may be more volatile than securities of larger, more established companies. Asset allocation and balanced investment options and models are subject to the risks of the underlying funds, which can be a mix of stocks/stock funds and bond/bond funds. A bond fund's yield, share price and total return change daily and are based on changes in interest rates, market conditions, economic and political news, and the quality and maturity of its investments. In general, bond prices fall when interest rates rise and vice versa.*



# When can you request reimbursements?

- Upon termination of employment... at any age
- Once retired
- If collecting a disability benefit from a MN public pension plan

**Returning to work?**

**You may have limited or no access**

# What is reimbursable

## Eligible medical/dental expenses, including:

- Insurance Premiums
  - Health, Medicare, Dental, Long-Term Care
- Dental costs
- Eye-care costs
- Co-payments & prescription drugs
- Over-the-counter drugs with prescription

*For other eligible expenses, see IRS Publication 502*

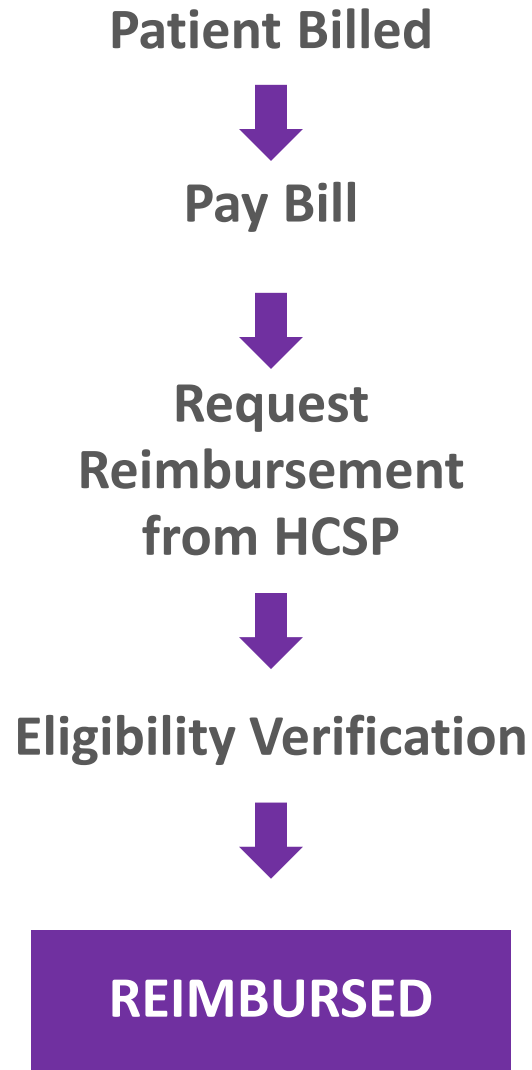


# What cannot be reimbursed

- Life insurance premiums
- Teeth bleaching
- Cosmetic surgery
- Finance charges on bills
- Fees for health club members
- Funeral expenses
- Vitamins



# Reimbursement requests



- Paid directly to participant, not to insurer or provider
- Out-of-pocket expenses
  - Minimum payout \$75
  - Maximum limit: \$38,000 in 2023
- Monthly insurance premiums
  - Medical, dental, long-term care, Medicare
  - Set up direct deposit to bank account

# HCSP/HSA compatibility

If a contribution is made to an HSA on your behalf in same year you are eligible to access your HCSP:

- Your HCSP account becomes “limited-use”
- May request reimbursements for dental & vision expenses only during the year.



Complete a *Reimbursement Suspension Election* form each calendar year that you or your employer contribute to an HSA

# What happens if you die?

## Spouse or legal dependents<sup>1</sup>

- Account balance transfers to HCSP account for spouse

### **OR, if no spouse**

- Account balance transfers to HCSP account for dependent(s) Spouse or legal dependent reimbursements remain **tax-free**

<sup>1</sup>Legal dependent is someone you can claim on your federal tax return.



# What happens if you die?

If NO spouse or legal dependents<sup>1</sup>

- Account balance transfers to HCSP account for your designated beneficiaries
- Reimbursements taxed as ordinary income (MSRS will issue IRS Form 1099-MISC)

<sup>1</sup>Legal dependent is someone you can claim on your federal tax return.

# Receive an HCSP Welcome Packet

in approximately **4 weeks:**

- after your first contribution is received
- after your termination date is entered or your employer remits severance payment



# Take action



**Review**  
your investments

The Money Market Fund is the investment default



**Remember**  
post-employment account  
for health expenses only



**Do not report**  
reimbursements from  
your account on your  
federal/state tax return  
since the HCSP is a  
**tax-free** plan



**Locations:**

**St. Paul -** 60 Empire Drive · Suite 300  
**St. Cloud -** 4150 Second Street S · Suite 330  
**Mankato -** 11 Civic Center Plaza · Suite 150  
**Detroit Lakes -** 714 Lake Ave · Suite 100  
**Duluth -** 625 East Central Entrance

# Contact us

Receive more details about the  
information you just saw

*or*

Make an appointment to speak to  
one of our retirement counselors



**[www.msrs.state.mn.us](http://www.msrs.state.mn.us)**



**1.800.657.5757 or 651.296.2761**

# ! Important Notes

*Securities, when presented, are offered and/or distributed by Empower Financial Services, Inc., Member FINRA/SIPC.*

*This material is for informational purposes only and is not intended to provide investment, legal or tax recommendations or advice.*

***Today's workshop was designed to:***

- *Provide you with fundamental information on your MSRS retirement plans*
- *Objectively highlight your investment options*
- *Outline other sources of information for your decisions*

