



Health Care Savings Plan

# Sample health care costs

Amount needed for retiree health insurance<sup>1</sup> from age 65 to 90  
(not including additional premiums between ages 55 and 65)

		Retiree only	Retiree & Spouse
	Health Insurance plus Medicare B	\$171,000	\$342,000

**FOR ILLUSTRATIVE PURPOSES ONLY**

SOURCE: MSRS 2025

<sup>1</sup>Based on \$385/month SEGIP supplemental insurance and \$185/ 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

---

---

<b>Net cash payment</b>	<b>\$6,355</b>
-------------------------	----------------

## Tax-Free HCSP Payout

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

---

---

<b>Net cash payment</b>	<b>\$10,000</b>
-------------------------	-----------------

**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

# State employee participation

Union	Paycheck contribution	Severance	Vacation
AFSCME		√	√
MAPE	1%	√	√
MMA	1.5%*	√	√
Managerial & Commissioners	1%	√	√**

For participation specifics, refer to your union contract at:

<https://mn.gov/mmb/employee-relations/labor-relations/labor/>

\*Effective 7/1/2024

\*\*Does not apply to all employees. See contract for details

# Investment Default



# Money Market Account

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

Core Bond Account

Vanguard Total Bond Market Index Fund

Stable Value Account

*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.*



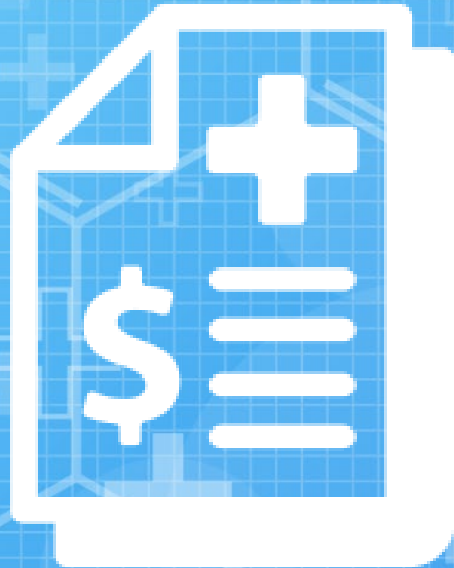
### **Investment Disclosure**

*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.mnretire.gov](http://www.mnretire.gov) 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 membership
- Funeral expenses
- Vitamins



# Reimbursement requests



- Paid directly to participant, not to insurer or provider
- Out-of-pocket expenses
  - Minimum payout \$75
  - Maximum limit: \$40,000 in 2024
- 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





### **Review**

your investments

The Money Market Account is the investment default



## Take Action



### **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

# Thanks for attending

We need and welcome your feedback

Please help us improve these pre-retirement webinars by completing our online survey.

[https://www.surveymonkey.com/r/MSRS\\_webinar\\_survey](https://www.surveymonkey.com/r/MSRS_webinar_survey)

