



Administered by:



What is HCSP?

- Employee builds a **tax-free** savings account
No FICA or income taxes paid
 - ✓ Tax-free going in
 - ✓ Tax-free growth
 - ✓ Tax-free going out
- HCSP Account used to offset IRS eligible employee, spouse, and dependent medical expenses upon termination of employment

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



HCSP Participation & Growth

- More than 450 participating public employers since starting HCSP in 2001

	Assets (in Millions)	Participants
FY02	\$ 2.7	1,608
FY03	\$25.6	5,622
FY04	\$54.5	13,777
FY05	\$83.4	20,100
FY06	\$122.2	24,191
FY07	\$165.7	30,904
FY08	\$213.0	49,385
FY09	\$250.0	58,211
FY10	\$317.2	65,163

Why Tax-Free Matters

Cash Payout

(Taxed: Federal, State, FICA)

Severance payment	\$10,000
Federal Income Tax	2,500
State Income Tax	705
FICA Tax	765

Net cash payment \$6,030

HCSF Payout

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

Net HCSF payment \$10,000

For illustration purposes only. This hypothetical example assumes a 25% federal withholding rate + 7.05% 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.

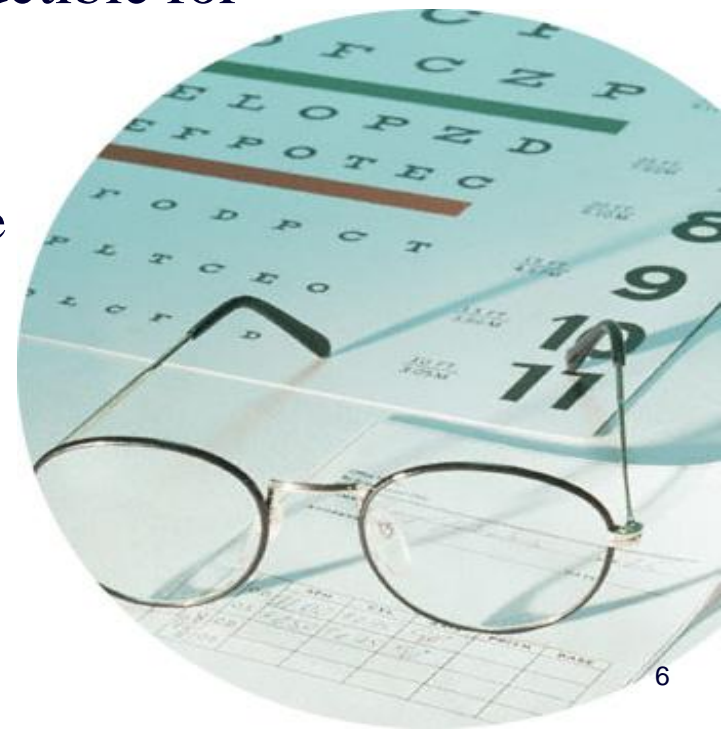


When can I draw from my account?

- Terminate employment at any age
- Retire
- Collect a disability
- On a medical leave (six months or longer)
- On a leave of absence (one year or longer)

What is reimbursable?

- Expenses related to the diagnosis, care, treatment or prevention of disease
- Medical/dental expenses which are deductible for federal income tax purposes
 - Insurance Premiums
 - Health, Medicare, Dental, Long-Term Care
 - Dental costs
 - Eye care costs
 - Co-payments & prescription drugs



What cannot be reimbursed?

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





Reimbursements...

- Paid directly to participant, not to insurer or provider
- Paid daily for out-of-pocket expenses
 - ✓ Minimum payout \$75
- Paid monthly for insurance premiums
 - ✓ Set up automatic payments to bank account
- HCSP does not use Benny™ Cards



Eligibility for Participation

MUST BE...

- Negotiated into the union contract; or
- Included in the personnel policy for non-union employees

CANNOT BE...

- Individual choice—everyone in the union or covered by the personnel policy must participate as set out in the agreement

Can I Opt out?

- Participation may be waived if you are...
 - Eligible for TRICARE
 - A foreign national
 - Have comprehensive health insurance coverage provided for life at least 70% paid for by an employer
- Written documentation required to waive coverage



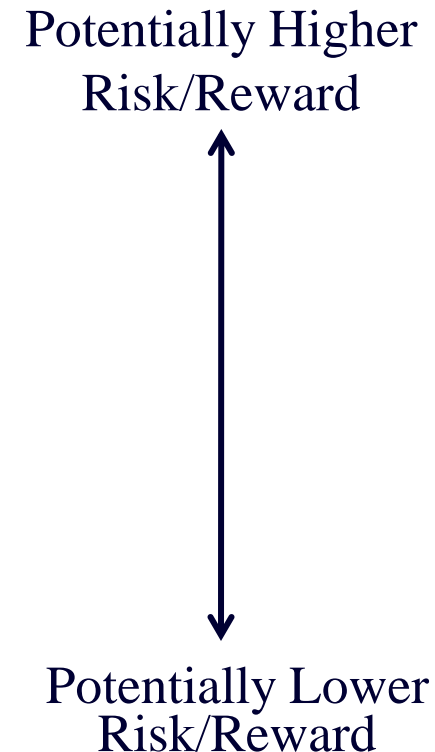
Investment information...

- State Board of Investment (SBI) offers seven investment options
- Participants determine level of risk by choosing investment option allocation
- Deposits to new accounts default to the **Money Market** until the **participant selects investment option(s)**



Investment options...

International
Growth Stock
Common Stock Index
Income Share
Bond Market
Fixed Interest
Money Market



Prior to making any investment decisions you should carefully review all fund information. This presentation is for general education purposes only and does not, nor is it intended to constitute legal, tax, investment or financial advice. To the extent that you need any such advice you are encouraged to speak with your legal, tax or investment advisor.



What happens if I die while married?

- Account balance will transfer to your spouse

OR

- If more than one legal dependent, account is set-up for each dependent
- Any spouse or legal dependent costs are reimbursed tax-free



What happens if I die & do not have spouse or legal dependents?

- Your account balance will transfer to your designated beneficiaries
- Beneficiary pays state and federal income tax on reimbursements (IRS Form 1099-R issued)
- Beneficiary reimbursements must be for eligible medical expenses
- Designate beneficiaries online, over the phone, or on paper

Administrative Fee

- Fee deducted monthly from account balance
- ANNUAL Administrative Fee...
 - 0.65% charged per account
(0.054% monthly)
 - Fees charged on the first \$21,500 account balance
(Capped at \$140 / year)

<u>Balance</u>		<u>Admin Fee</u>		<u>Cost to Participant</u>
\$1,000	x	.00054	=	\$0.54 / month
\$1,000	x	.0065	=	\$6.50 / year



Investment Fee

- **Investment Fee**
 - State Board of Investment's annual investment fees range from .01% to .31%
(depending on investment option selections)
 - Refer to *Investment Performance* report
 - Investment returns are net of investment fees

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Reimbursement Suspension

- Per IRS, reimbursements from both HSA & HCSP in a calendar year violate federal law
- You may continue to request reimbursements for dental and vision expenses

Reimbursements Must be Suspended

If	Must suspend HCSP reimbursements for
You contributed to an individual HSA this calendar year	Yourself
You contributed to a family HSA this calendar year	You, your spouse and legal dependent(s)
Your spouse contributed to an individual HSA this calendar year	Your spouse only
Your spouse contributed to a family HSA this calendar year	You, your spouse and legal dependent(s)



Impact of Health Care Reform

- Effective January 1, 2011
 - over-the-counter medicines or drugs (except insulin) will not be reimbursable without a prescription
 - May request reimbursement of eligible health care expenses for children under age 26

Questions?

- Contact MSRS toll-free at 1-800-657-5757 or 651-296-2761
- Visit the MSRS website at www.msrs.state.mn.us
- Visit one of our offices:
 - St. Paul – 60 Empire Drive, Suite 300
 - Mankato – 12 Civic Center Plaza, Suite 1645
 - Detroit Lakes – Lottery Bldg, 1111 Hwy 10 East
 - Duluth – 324 W. Superior St., Suite 530 Medical Arts
 - St. Cloud – 110 2nd Street, Suite 308, Waite Park

If you are planning to visit one of our offices, we encourage you to schedule an appointment so that we can provide you with the best service possible.