



# Health Care Savings Plan Information Guide

*Retired or Inactive Employees*

welcome

Welcome to the Health Care Savings Plan (HCSP), administered by Minnesota State Retirement System (MSRS). You are automatically enrolled in this Plan as directed by the bargaining agreements and/or personnel policy of your employer. You may now start accessing the tax-free money saved in your HCSP to reimburse eligible health care expenses for you, your spouse and legal dependents.

Please take a few moments to read through the contents of this packet. Enclosed are three forms for you to complete:

1. **Beneficiary Designation form** — use this form to designate new HCSP beneficiaries or to change your existing HCSP beneficiary designation.
2. **Reimbursement Claim form** — since you have separated or retired from your Minnesota public employer, you are eligible to request reimbursements of out-of-pocket healthcare expenses. When you are ready to begin reimbursements, return this form with documentation of your healthcare expenses.
3. **Direct Deposit form** — we encourage you to have your reimbursement electronically deposited into your financial institution. Your reimbursement amount will be available to you sooner than having a paper check mailed to you.

Contributions to your HCSP account are automatically invested in the Money Market Account unless you elect otherwise. There are three ways to change your investment election:

- Visit our website at [www.msrs.state.mn.us](http://www.msrs.state.mn.us)
- Call the Automated Voice Response (AVR) System
- Contact MSRS to speak with a Plan Representative

Please review this information carefully and complete and return the enclosed forms. To learn more about HCSP, go to [www.msrs.state.mn.us](http://www.msrs.state.mn.us) and select “Health Care (HCSP).” Or, contact MSRS at 651-296-2761 or toll-free at 1-800-657-5757.





## What are eligible health care expenses?

Eligible expenses are those which are deductible for federal income tax purposes. Some of the more common expenses reimbursed by HCSP include:

- Premiums for medical, dental and long-term care insurance
- Medicare Part B and D premiums
- Insurance deductibles and co-pays
- Prescription drug co-pays
- Many over-the-counter drugs
- Eye care expenses

For more examples of eligible health care expenses, visit [www.msrs.state.mn.us](http://www.msrs.state.mn.us) or refer to IRS Publication 502 which can be found at [www.irs.gov](http://www.irs.gov).

## What is the Health Care Savings Plan (HCSP)?

HCSP is an employer-sponsored program that allows you to invest money in a tax-free account while you are employed by a Minnesota public employer. Once you leave employment, you may access this money for reimbursement of eligible health care expenses for you, your spouse and legal dependents. As you know, out-of-pocket medical expenses, including medical insurance premiums, can quickly add up to thousands of dollars. Using the tax-free dollars accumulated in your HCSP account to reimburse these costs can provide a significant savings for you and your family.



*HCSP is a tax-free account, which means contributions and eligible reimbursements are not reportable on state or federal income tax returns.*

### Fees

The annual administrative fee is 0.65 percent of your account balance. This fee is prorated and deducted monthly by MSRS from your account balance. For example, if you have an account value of \$10,000, MSRS will deduct \$5.42 per month from your account. The maximum annual fee is \$140 or \$11.67 per month. Fees are subject to change.

## How are my contributions invested?

Contributions made to your HCSP account are invested in the Money Market Account unless you previously elected one or more of the other investment options. You can change your investment mix or transfer all or a portion of your existing balance among any of the investment options.\* There are three ways to manage your investment selections:

- Online at [www.msrs.state.mn.us](http://www.msrs.state.mn.us)
- By phone using the Automated Voice Response (AVR) System
- Contact an MSRS Representative at 651-296-2761 or toll-free at 1-800-657-5757

\* You may not transfer balances directly from the Fixed Interest Account to the Money Market Account.

## How HCSP can save you money

*Here's an example of how contributing a severance payment to your HCSP could save you money. Let's say you are eligible for \$5,000 in severance. If this was paid to you in cash, you would only receive about \$3,000 after deducting federal, state and FICA (Social Security and Medicare) taxes. If your severance is directed into HCSP, the entire \$5,000 would be available for reimbursement of health care expenses, effectively saving you \$2,000.*

## HCSP Investment Options

*You can invest your HCSP contributions in any combination of the following seven investment options. For additional investment information, go to [www.msrs.state.mn.us](http://www.msrs.state.mn.us) and select “Health Care (HCSP),” then “Investment Options”. To review a prospectus, visit the website at [www.sbi.state.mn.us](http://www.sbi.state.mn.us). The prospectus is located under the Publications link. Please consider the investment objectives, risks, and charges and expenses of the investment options carefully before investing.*

### **1 Money Market Account**

This Account maintains the value of a participant’s original investment and earns interest that is competitive with rates available in short-term money markets. The Account owns short-term securities backed by the U.S. Treasury and its agencies. The average maturity of the Account is generally 90 days or less. Since the sole source of return for the Account is the interest income on the securities that it holds, returns will closely track the rise and fall of short-term interest rates. Currently, the Account is managed by State Street Global Advisors, an affiliate of State Street Bank and Trust. While shares of the Account are neither insured nor guaranteed by the U.S. Government, the Account offers a higher degree of safety than non-government short-term funds. There is no assurance that the portfolio will be able to maintain a stable net asset value of \$1.00 per share.

### **2 Fixed Interest Account**

This Account is designed to maintain the value of your original investment and to provide competitive interest rates using somewhat longer term investments than typically found in a money market-type account. The assets in the Account are invested primarily in stable value instruments such as insurance company investment contracts, bank investment contracts, and security backed contracts. These instruments are issued by highly rated U.S. financial institutions. They typically have maturity of 3 to 6 years and are rated “A” or better at the time of purchase. The interest rate credited will change reflecting the blended interest rate available from all investments in the Account including cash reserves, which are maintained to provide liquidity. Due to the nature of the assets, volatility of investment returns is expected to be minimal.

### **3 Bond Market Account**

This Account generates returns from interest income and capital appreciation (an increase in the market value of its bonds). The Account invests in government issues, high-quality corporate bonds and mortgage securities that have intermediate to long-term maturation, between three and 20 years. While the majority of the Account is invested in the U.S. bond market, a small portion of the portfolio can be invested in international-bond markets.

### **4 Income Share Account**

This Account earns return from capital appreciation and current yield. It generates returns from dividends on stock and interest on bonds. While holdings vary daily, the Account usually maintains about 60 percent in common stock, 35 percent in bonds and 5 percent in cash. Currently, the Account’s stock segment is managed passively and indexed to the Russell 3000 Index. The Russell 3000 Index is a broad market index composed of the 3,000 largest U.S. companies by market capitalization, representing approximately 98% of the U.S. equity market. Russell 3000 is a registered service mark of Frank Russell Company. Managed passively means no attempt is made to identify specific stocks that will perform better than others. The bond segment includes high-quality corporate and mortgage securities, as well as U.S. government issues.

### **5 Common Stock Index Account**

This Account generates returns that follow the U.S. stock market. The Account is managed passively and designed to trace the Russell 3000 Index. Since no attempt is made to select stocks that outperform the market, the Account’s returns correspond to the Russell 3000 Index’s movements. The Russell 3000 Index is a broad market index that reflects thousands of publicly traded U.S. stocks.

### **6 Growth Share Account**

This Account generates returns from capital appreciation by investing almost exclusively in stock of U.S. companies. The Account uses a group of external stock managers retained by the State Board of Investment to manage other retirement assets. As a result, the Account encompasses a variety of investment styles and approaches. One set of managers actively manages concentrated portfolios in which a limited number of stocks are held. Another set of managers attempts to add incremental value by investing in the broad stock market across a wide range of industries. These managers balance the more concentrated portfolios held by other active managers in the Account. This structure assures that the entire Account covers all areas of the broad stock market. As a result, the structure reduces the chance that future returns for the Account will be either greatly above or below those of the broad market in any given year.

### **7 International Account**

This Account earns returns by investing in the stock of foreign companies. Typically, a majority of this Account is invested in the five largest international markets, that is, United Kingdom, Japan, Germany, France and Switzerland. Most of the remainder is invested in other well-established markets in Canada, Europe and the Pacific region. In addition, a portion of the Account is invested in developing countries or emerging markets. Approximately one-third of the Account is managed passively and designed to track the return of 21 markets included in the Morgan Stanley Capital International index of Europe, Australasia and the Far East (EAFE-Free).



## How do I request reimbursements for eligible health care expenses?

MSRS will reimburse you directly for eligible out-of-pocket expenses. **First check the list of eligible expenses (beginning on page 5 of this brochure)** or refer to IRS Publication 502 which can be found at [www.irs.gov](http://www.irs.gov). After you have paid your eligible expenses, complete and return a *Reimbursement Claim* form along with documentation of the expenses. Reimbursements can be made by check or by direct deposit into your bank account. For direct deposit of your reimbursements, please complete the *Direct Deposit Agreement* which can be downloaded at [www.msrs.state.mn.us](http://www.msrs.state.mn.us).

## Can I request automatic reimbursements for monthly insurance premiums?

Yes. The *Reimbursement Claim* form includes an option to request automatic reimbursements for recurring insurance premium expenses. Just check the “yes” box in the “Reimburse Future Months Automatically” column. Automatic reimbursements are made on the last Friday of each month.

If your insurance premium or provider changes, you must complete a new *Reimbursement Claim* form and provide documentation of the change. To stop automatic reimbursements, contact MSRS at 651-296-2761 or toll-free at 1-800-657-5757.

## What happens when this account is depleted? Can I add more money to this account?

No. An individual cannot elect to contribute additional amounts to the HCSP. Amounts deposited into your account were negotiated and agreed upon by your bargaining unit or employer.

## Does my HCSP affect my other tax-advantaged savings plans?

You may invest in multiple tax-advantaged savings plans, such as a Health Savings Account (HSA), Health Reimbursement Account (HRA) or Flexible Spending Account (FSA); however, you cannot request reimbursement of the same expense from more than one savings plan or deduct a reimbursed expense on your federal income tax return.

### Special note regarding Health Savings Accounts (HSAs)

You may not request reimbursement for medical expenses from HCSP during a calendar year that you contributed to an HSA or your spouse contributed to a family HSA. The IRS considers having access to your HCSP account while also contributing to an HSA, “conflicting coverage.” If you made contributions to your HSA, you must submit a form that indicates you will suspend HCSP reimbursements for medical expenses for the current calendar year. You may continue to request reimbursements for dental and vision expenses. Please contact MSRS to obtain a suspension form.



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## What if I die with money remaining in my account?

If there is a balance remaining in your account upon your death, it is automatically transferred to your spouse and/or legal dependents to use for tax-free reimbursement of eligible medical expenses.

If you do not have a spouse or legal dependents, or your spouse dies before you, your designated beneficiaries can use the remaining balance in your HCSP for reimbursement of eligible health care expenses. Reimbursements to a designated beneficiary are subject to state and federal income taxes.

We encourage you to periodically review your HCSP beneficiary designation. Even if you have a spouse or legal dependents, it's still a good idea to have a beneficiary designation on your account. To obtain a *Beneficiary Designation* form, go to [www.msrs.state.mn.us](http://www.msrs.state.mn.us) or call MSRS.

## What if I return to work; can I still use my HCSP for reimbursements?

It depends. If you are returning to work with the employer who sponsored your plan, then you can not request reimbursements. If this is a new employer, then you may request HCSP reimbursements.

## How can I monitor and manage my account?

There are several ways to manage your account:

- Review quarterly statements
- Visit [www.msrs.state.mn.us](http://www.msrs.state.mn.us)
- Call the Automated Voice Response (AVR) System
- Contact an MSRS Representative at 651-296-2761 or toll-free at 1-800-657-5757

## Am I required to report my account balance on my tax returns?

No. This is a tax-free account, which means contributions as well as reimbursements are not reportable on state or federal income tax returns.



## Reimbursable Health Care Expenses

You may use your HCSP account to reimburse the cost of health and dental insurance (paid after taxes), long-term care insurance, and monthly Medicare B and D premiums. This table lists the most common reimbursable expenses. For a complete list of reimbursable expenses, see IRS publication 502 available at [www.irs.gov](http://www.irs.gov). Note: The current IRS publication 502 supersedes all MSRS documentation regarding reimbursable health care related expenses.

- A** Acupuncture and acupressure
- Alcoholism or drug dependency treatment and treatment centers
- Allergy medicine
- Ambulance
- Analgesics
- Antacids
- Antibiotics, first aid
- Anti-diarrhea medicine
- Antihistamines
- Anti-inflammatory
- Artificial limbs and teeth
- Aspirin
- B** Band-aids/bandages
- Birth control devices (with prescription)
- Birth control pills
- Braille books and magazines (to the extent exceeding prices for regular books and magazines)
- Burn treatments
- C** Car (with special medical equipment)
- Childbirth preparation classes for mother, excluding portion for mother's coach
- Cold and flu medicine
- Cold/hot packs
- Contact lens solutions/cleaners
- Contraceptives
- Corn/callus removers
- Cough drops
- Crutches
- D** Decongestants
- Dental treatment, including dentures and orthodontia (excluding bleach)
- Diabetic supplies
- Diaper rash treatment
- Diathermy
- Digestive aids (except holistic or dietary supplements)
- Drugs which require a prescription
- E** Elastic wraps
- Expectorants
- Eye drops
- Eye examination
- Eyeglasses

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**F** Fees to doctors or hospitals for:

Anesthesiologist  
 Chiropractists  
 Chiropractor  
 Christian Science practitioners  
 Clinic  
 Dentist  
 Dermatologist  
 Gynecologist  
 Midwife  
 Neurologist  
 Obstetrician  
 Ophthalmologist  
 Optometrist  
 Osteopath, licensed  
 Pediatrician  
 Physical examination  
 Podiatrist  
 Practical nurse  
 Psychiatrist  
 Psychoanalyst (medical care only)  
 Psychologist (medical care only)  
 Sex therapist  
 Surgeon

First aid kits

**G** Guide dog and its upkeep**H** Hearing aids and batteries

Hemorrhoid treatments

Home modification to accommodate handicapped person (as per IRS pub. 502)

**I** Incontinence supplies

Insect bite/sting medicine

Insurance premiums for medical, dental or long-term care paid after tax

**L** Laboratory fees

Laxatives

Lip-reading lessons

Lodging for medical care (\$50 per night per person up to \$100 per night)

**M** Massage therapy if accompanied by doctor's prescription indicating length of time needed and number of treatments needed — updated annually

Medical supplies

Medicare Part B and D premiums

Medications which require a prescription

Menstrual pain relievers

Mental institution care (mentally ill person unsafe when left alone)

Mentally handicapped, special home for

Motion sickness medicine

Muscle/joint pain relievers (except holistic or dietary supplements)

**N** Nasal sinus sprays

Nicotine patches, gum, lozenges

Nurses' expenses and board

Nursing care

Nursing Home (if for medical reasons)

**O** Obstetrical expenses

Operations and related treatment (except cosmetic)

Oral wounds (cold sores)

Organ donation, organ transplants

Orthopedic shoes, excess of costs over normal shoes

Oxygen equipment

**P** Pain relievers

Pedialyte (dehydration)

Pregnancy test kits

Prenatal vitamins (prescribed)

Psoriasis treatment

**R** Radial keratotomy

Reading glasses

Rental of medical equipment (see IRS Pub. 502 for guidelines)

**S** Sanitarium

Sinus medication

Skin irritation treatment

Sunburn treatments

Special schooling for physically or mentally handicapped

Speech therapy

Spousal or personal insurance premiums

Sterilization, legal

Support or corrective devices (such as orthopedic shoes)

Swimming pool, for treatment of severe emphysema, bronchitis osteoarthritis, or degenerative spinal problems

**T** Telephone for the deaf

Television closed caption decoder equipment which displays the audio part of TV programs for the deaf

Therapy received as medical treatment

Thermometers

Throat lozenges

Transplant, medical expenses of donor or prospective donor

Transportation expenses for essential medical care mileage (plus parking)

Tuition at special school for the handicapped

**V** Vaccinations

Vasectomy

Visual alert system for deaf person

Vitamins which require a prescription

**W** Wart remover products

Wheelchair

Wrist/joint supports

**X** X-rays

## Non-Reimbursable Health Care Expenses

Acne treatment

Antiperspirant

Any charges incurred prior to reimbursement eligibility

Any illegal treatment

Bleaching of teeth

Blemish concealer

Breast pumps

Chapsticks

Cosmetics

Cosmetic surgery, electrolysis, and hair transplants that are not medically necessary

Cost of illegal drugs, even if physician directed

Cost of remedial classes for non-handicapped child

Cotton balls

Dancing or ballet, even if recommended by doctor

Dental floss

Denture care products

Deodorant

Dietary supplements

Exercise equipment

Face creams

Finance charges

Funeral expenses

Hair growth/removal products

Health insurance premiums deducted on a pre-tax basis

Life insurance

Marriage counseling

Maternity clothes

Meals

Mouth wash

Nutritional supplements

Powder, baby or talcum

Shampoo

Skin lotion

Stop smoking programs for general well-being

Suntan lotion

Swabs

Swimming lessons

Teeth whitening products

Toothpaste/toothbrushes

Vitamins and minerals

Weight reduction program for general well-being

## Reimbursable Health Care Expenses with your Physician's Note

The following health care items have a dual use and can only be reimbursed from HCSP if a written prescription or documentation signed by the provider specifies the name/type of treatment and the condition requiring the treatment/expense.

The provider must update written documentation for dual use expenses on an annual basis to continue to be eligible for reimbursement.

Acne treatment

Chondroitin (arthritis)

Diaper service (except for special needs)

Fees for exercise, athletic or health club membership

Fiber supplements

Glucosamine (arthritis)

Hormone therapy

Lactose intolerant pills

Nasal sprays/strips for snoring

Orthopedic inserts

Orthopedic shoes

Shampoo, medicated

Sunscreen

St. John's Wart (depression)

Weight loss

## Success of HCSP

The Minnesota State Retirement System (MSRS) administers HCSP for the benefit of governmental employees throughout Minnesota.

Since its inception in July 2001, the Plan has gained popularity and grown in size.

Minnesota State Statutes Chapter 352.98 authorizes MSRS to offer this program to governmental employers in Minnesota.

MSRS Representatives are registered representatives of ING Investment Advisors, LLC (Member SIPC).



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