

**University of Minnesota Office of Human Resources  
FAQs on the Health Care Savings Plan (HCSP)  
Updated May 2, 2008**

**All Faculty and Staff**

1. What is a health care savings plan?

A health care savings plan is a tax-exempt account that can be used to pay for medical expenses after you leave the employment of the University of Minnesota. Contributions are made to fund the account, you choose how it is invested, and funds may only be used for approved medical expenses.

Under IRS rules, health care savings plans cannot be voluntary. If your accumulated vacation leave exceeds the cutoff, then you must participate in the plan.

2. What is the benefit of a health care savings plan?

Money is not taxed going into or being paid out by a health care savings plan. In contrast, money is not taxed going into an Optional Retirement Plan, but is taxed when paid out.

3. Is a health care savings plan completely tax free, including its earnings?

Yes, any earnings on health care savings plan investments are tax free.

4. Will the University contribute additional or matching funds to the health care savings plan?

Not at this time. There is no funding source currently available for a University contribution.

5. Can we opt out of participating in a health care savings plan?

By IRS rules, a health care savings plan cannot be voluntary, but must be mandatory within an employee classification.

6. If the health care savings plan is implemented, why would participation in it be mandatory?

The IRS has rules that govern how a health care savings plan works. The plan cannot be voluntary, it cannot be discriminatory (making the plan available only to retirees could be considered discrimination based on age), the plan must be set

up for a specific classification of employees, and all employees within that classification must have the same rules for participation in the plan.

7. How do you define employee classification?

Employee classification is defined, in part, by Minnesota statute. At the University, faculty, P&A employees and civil service employees are each a classification.

8. Does anyone else at the University of Minnesota contribute to the HCSP?

Since April 1, 2006, the Teamster collective bargaining contract has included HCSP contributions for those who leave the University with 10 years or more of service and 80 or more hours of vacation. The LELS police officers have also negotiated contributions of vacation and compensatory time distributions to the HCSP for those who leave the University. In addition, as of January 1, 2009, the LELS police officers will also contributed 1 percent of compensation to the HCSP each pay period. The Civil Service Committee has recommended that the University implement HCSP contributions for civil service staff who leave the University with 10 years or more of service and 200 or more hours of vacation. This proposal has been accepted and will be implemented effective August 1, 2008.

On May 1, 2008, the Faculty Senate approved a recommendation to change the Faculty Retirement Plan contributions to 2 percent, depositing the other .5 percent to the HCSP each pay period. This proposal is under consideration by the Office of Human Resources.

9. I'm not a U.S. citizen, and I'll be returning to my home country when I leave the University. Am I still required to participate in a health care savings plan?

No. Employees in this situation can apply for exemption from the HCSP.

10. When I leave the University, I'll be covered by a federal government medical plan that has 100-percent coverage. Am I still required to participate in a health care savings plan?

No. Employees in this situation can apply for exemption from the HCSP.

11. Could I contribute additional money to the health care savings plan?

No. The IRS views additional contributions as voluntary contribution, and participation in a health care savings plan cannot be voluntary.

12. What types of expenses can be reimbursed through the HCSP?

Your HCSP account may be used to cover the cost of health and dental insurance, long-term care insurance, and monthly Medicare B premiums. Additional eligible expenses are listed in IRS publication 502, and are those that may currently be reimbursed from your annual healthcare flexible spending account. Note: The current IRS publication 502 supersedes all other documentation regarding reimbursable health care related expenses.

13. Is homeopathic treatment an allowable medical expense?

Homeopathic treatments are allowable expenses only if prescribed by a physician.

14. Who will administer the health care savings plan?

The Minnesota State Retirement System (MSRS) administers the HCSP. Claims are filed directly with MSRS, so no University employee has access to any medical claim information you submit for reimbursement.

15. Who manages the investment funds in the HCSP?

The State Board of Investment manages the seven investment funds currently offered in the HCSP.

16. Could I lose money on my health care savings plan?

A health care savings plan can lose money depending on the investment option you choose, but there are investment options that preserve principal.

17. Do I decide how to invest my health care savings plan money with MSRS?

Yes. When a savings plan is set up, the money is deposited in a money market account and you will receive an enrollment packet with information about seven types of investment choices available under the plan. Your funds can be moved between these seven investment options.

18. Can MSRS pre-pay for recurring monthly expenses from the health care savings plan?

No, but a recurring monthly expense, such as medical insurance premiums, can be set up as a direct deposit monthly reimbursement.

19. What will my medical expenses be in retirement?

Medical expenses vary by individual. In 2008, the lowest-cost post-65 retiree coverage costs over \$5,800 per year for two adults. Dental coverage costs

another \$800 annually. Medicare Part B, again for two adults, costs over \$2,300 per year. Total costs for two adults in 2008 will amount to over \$9,000. With no increase in cost (which is unlikely), medical and dental premiums alone could cost a couple of two more than \$130,000 during a 15-year retirement.

20. What if we get national health care? Won't that make a health care savings plan unnecessary?

If a national health care program is modeled on Medicare, it is unlikely to be full coverage and will most likely include some out-of-pocket costs, including copayments and excluded services.

21. Currently, the IRS says health care savings plans are tax exempt. Can this change?

The IRS can change its rules, but neither the University nor MSRS expect the tax-exempt status of health care savings plans to change.

22. If I die with a balance in my health care savings plan, can my spouse or dependent use the money?

If you have a spouse or dependent, they can use the account to pay for allowable medical expenses. The federal government does not acknowledge same-sex domestic partnerships and the IRS does not extend tax-exempt benefits to the funds in a health care savings plan that is rolled over to same-sex domestic partners.

23. If I die with a balance in my health care savings plan and don't have a spouse or dependent, what happens to the money?

MSRS carries life insurance on your health care savings plan that pays the balance of your plan, up to \$50,000, to your beneficiary. Life insurance payouts are not taxable.

24. Does a HCSP expire like a healthcare flexible spending account that has to be used within that year?

No, a health care savings plan does not expire.

25. Isn't a health care savings plan the same thing as my health care savings account (HSA)?

No, but there are some similarities. An HSA is tied to a high-deductible medical plan. In contrast, a health care savings plan is used to pay post-employment medical expenses, irrespective of the type of medical insurance you have.

## Faculty Only

1. How will the account be funded? Who makes the contributions?

If accepted by administration, faculty would make the contribution to the HCSP. The proposal would reduce the current 2.5 percent faculty contribution to the Faculty Retirement Plan to 2.0 percent, with the additional .5 percent going to fund the HCSP each pay period. Eligibility would be tied to eligibility for the Faculty Retirement Plan. This proposal results in no net paycheck reduction if the HCSP is implemented, nor does it impact the current 13 percent University contribution to the Faculty Retirement Plan.

2. When will the health care savings plan be implemented?

No date has been set. The Senate approved the recommendation and forwarded it to administration at the May 1, 2008 Faculty Senate meeting. In any case, the current HCSP design for faculty could not be implemented until January 1, 2009, at the earliest.

3. Who will decide whether the health care savings plan is implemented?

The University's Office of Human Resources (OHR) will work with University administration and the Minnesota State Retirement System (MSRS) to get approval for the proposal.

4. Does the health care savings plan have an impact on the Faculty Retirement Plan (FRP)?

Yes. If the current proposal is accepted, faculty contributions to the Faculty Retirement Plan will be reduced from 2.5 percent to 2.0 percent of salary.

5. How would the University benefit from implementing a health care savings plan for faculty?

The University would not pay Social Security (FICA) or Medicare taxes on the .5 contributed to the HCSP. The U is required to pay FICA and Medicare on academic employee contributions to the Faculty Retirement Plan.

6. Will the University pay into the HCSP some or all of the FICA/Medicare tax savings?

The University doesn't offer this benefit, but it is an option that could be investigated as a change to the HCSP after it is implemented.

7. How will faculty members benefit from implementing a health care savings plan?

Faculty currently pay FICA and Medicare taxes on the money contributed to the Faculty Retirement Plan. These taxes would be reduced if the HCSP is implemented, as faculty would not pay FICA or Medicare on the .5 percent contributed to the HCSP. An additional benefit would be the tax savings on the distributions made from the HCSP, as distributions from the Faculty Retirement Plan are taxable when distributed.

8. What are the next steps?

The HCSP proposal was accepted at the May 1, 2008 Faculty Senate meeting, and has been forwarded to administration for response. If accepted by administration, the University's Office of Human Resources (OHR) will work with University administration and the Minnesota State Retirement System (MSRS) to get approval for the proposal.

## **Academic Professionals and Administrators (P&A) Only**

1. How will the account be funded? Who makes the contributions?

The current proposal before CAPA would reduce the current 2.5 percent P&A contribution to the Faculty Retirement Plan to 2.0 percent, with the additional .5 percent going to fund the HCSP each pay period. Eligibility would be tied to eligibility for the Faculty Retirement Plan. This proposal results in no net paycheck reduction if the HCSP is implemented, nor does it impact the current 13 percent University contribution to the Faculty Retirement Plan.

2. When will the health care savings plan be implemented?

No date has been set. The proposal was discussed at the March 28 CAPA meeting and will be voted upon at the June 20 meeting. In any case, the current HCSP design for faculty could not be implemented until January 1, 2009, at the earliest.

3. Who will decide whether the HCSP is implemented?

If the CAPA votes to support the current HCSP design, the University's Office of Human Resources (OHR) will work with University administration and the Minnesota State Retirement System (MSRS) to get approval for the proposal.

4. Does the health care savings plan have an impact on the Faculty Retirement Plan (FRP)?

Yes. If the current proposal is accepted, P&A contributions to the Faculty Retirement Plan will be reduced from 2.5 percent to 2.0 percent of salary.

5. How would the University benefit from implementing a health care savings plan for faculty?

The University would not pay Social Security (FICA) or Medicare taxes on the .5 contributed to the HCSP. The U is required to pay FICA and Medicare on academic employee contributions to the Faculty Retirement Plan.

6. Will the University pay into the HCSP some or all of the FICA/Medicare tax savings?

The University doesn't offer this benefit, but it is an option that could be investigated as a change to the HCSP after it is implemented.

7. How will P&A employees benefit from implementing an HCSP?

P&A employees currently pay FICA and Medicare taxes on the money contributed to the Faculty Retirement Plan. These taxes would be reduced if the HCSP is implemented, as P&A employees would not pay FICA or Medicare on the .5 percent contributed to the HCSP. An additional benefit would be the tax savings on the distributions made from the HCSP, as distributions from the Faculty Retirement Plan are taxable when distributed.

8. What are the next steps?

The HCSP proposal was discussed at the March 28 CAPA meeting. During the month of April, the Office of Human Resources provided open forums for individuals to attend and hear more about the plan. These forums were given on the East Bank, the West Bank and St. Paul, and were available to the Morris, Crookston, Duluth and Rochester campuses via a breeze presentation, which is available on the Employee Benefits web site for those who are unable to attend any of the live discussions. In addition, a short survey is available to gather P&A opinions on the proposal prior to the CAPA vote on June 20, 2008. This survey is available as a link from the Employee Benefits Web site.

## **Civil Service Staff Only**

### 1. How will the account be funded? Who makes the contributions?

The account is funded with the unused vacation leave you've accumulated while you worked for the University. Instead of receiving the value of the vacation as a lump-sum payout, the money would instead be transferred into a health care savings plan account.

The recommended plan design would fund the account if you leave the University with 10 years or more of service and 200 hours or more of banked vacation. If your unused vacation time exceeds this cutoff, its value would automatically be transferred to a health care savings plan. If you have accumulated less vacation leave than 200 hours of vacation, or less than 10 years of service when you leave, its value will be paid directly to you as a lump sum.

### 2. When will the health care savings plan be implemented?

The Civil Service Committee's recommendation has been accepted by administration with a targeted implementation date of effective August 1, 2008.

### 3. Who decided whether the health care savings plan is implemented?

The Civil Service Committee recommended implementing a savings plan, and has presented a proposal to the University's Office of Human Resources (OHR). OHR is currently working with University administration and the Minnesota State Retirement System (MSRS) to get approval for the proposal.

### 4. Can we contribute the value of our accumulated sick leave to the health care savings plan?

No. Sick leave is not tied to specific funding. University departments pay into a fringe pool at .34 percent of the departments' payroll. This money funds vacation payouts when an employee leaves the University or takes a job in a different department. The fringe pool is only funded for vacation payouts. To pay out sick leave, the University would have to find an additional funding source.

### 5. Does the health care savings plan have an impact on MSRS retirement plan?

No. A health care savings plan is completely separate from the MSRS retirement plan. Neither plan has an effect on the other.

6. If I change from a civil service job to a P&A job, will I be required to deposit my accumulated vacation time in a health care savings plan?

Any vacation time you have accumulated above 22 hours is treated as a payout. However, because you're not leaving University employment, your vacation time would not be transferred into a health care savings plan.

7. If I'm reaching the maximum amount of vacation leave I'm allowed to accumulate, can I contribute one week to a health care savings plan?

This isn't an option that falls under the current plan, but it could be investigated as an option later.

8. Can we contribute to a health care savings plan before we retire?

This isn't an option that falls under the current plan, but it could be investigated as an option later.

9. Can I still participate in the vacation donation program when I leave the University?

Yes, but you must donate your vacation time at or before the time you leave the U.

10. If I don't want a health care savings plan, can I just use my vacation time and have fewer vacation hours accumulated than the cutoff?

Yes. If you have fewer vacation hours than the cutoff for required rollover into a health care savings plan, those hours will be paid out when you leave University employment.

11. What are the tax implications of taking vacation payout versus having the hours roll into a health care savings plan?

Vacation payouts are taxed at the lump sum rate, which is currently 28 percent for federal withholding, 7.65 percent for Social Security and Medicare withholding, and 6.5 percent for Minnesota withholding. That means the net amount you will receive on a \$10,000 vacation payout is \$5,785. Some of the federal and state taxes withheld may be returned through an income tax refund.

12. What is the benefit of a health care savings plan over rolling vacation pay into one of the optional retirement plans offered by the University?

Optional retirement plan money is taxed when you withdraw it, regardless of how you spend the money. Health care savings plan funds are not taxed because they are used to pay for allowable medical expenses.

13. Will we have the option to put some of a vacation payout into the optional retirement plan and the balance into a health care savings plan?

No. The IRS views the choice of rolling some money into an optional retirement plan and some into a health care savings plan as voluntary contributions. Health care savings plans cannot be voluntary.

14. How soon after I leave the U would a health care savings plan kick in?

Vacation payouts to a health care savings plan would happen two weeks after your last payroll check.

15. Can I amortize my vacation payout?

No. The University does not offer this option.

16. How would the University benefit from implementing a health care savings plan for civil service staff?

The University does not pay a 7.65 percent FICA tax on money paid to a health care savings plan. The U is required to pay FICA tax on vacation payouts.

17. Will the University pay into the health care savings plan some or all of the 7.65 percent it saves in FICA taxes?

The University doesn't offer this benefit, but it is an option that could be investigated as a change to the health care savings plan after it is implemented.