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## FAQs on the Health Care Savings Plan (HCSP) Updated February 4, 2009

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### All Faculty and Staff

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#### 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 you meet eligibility requirements, participation is mandatory.

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

Money is not taxed going into or being paid out of a health care savings plan when it is distributed to participants, spouses or legal dependents. In contrast, money is not taxed going into an Optional Retirement Plan, but is taxed when paid out.

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

Effective 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.

Effective May 1, 2008, the LELS police officers negotiated contributions of vacation and compensatory time distributions to the HCSP for those who leave the University. In addition, effective January 1, 2009, the LELS police officers also contribute 1 percent of compensation to the HCSP each pay period.

Effective August 1, 2008, civil service staff who leave the University with 10 years or more of service and 200 or more hours of vacation receive HCSP deposits in lieu of vacation payouts.

Discussions with the Faculty Senate and the Council of Academic Professionals and Administrators (CAPA) are still underway for academics. The current proposal would divert 2 percent of the 13 percent University contribution to the Faculty Retirement Plan to the HCSP each pay period.

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

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

**5. 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.

**6. 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.

**7. 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.

**8. 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 considered a classification.

**9. I am not a U.S. citizen, and I will 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 will 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 medical 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 health care 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 administers 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 among 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 2009, the lowest-cost post-65 retiree coverage costs over \$6,000 per year for two adults. Dental coverage costs another \$850 annually. Medicare Part B, again for two adults, costs over \$2,300 per year. Total costs for two adults in 2009 will amount to over \$9,200. With no increase in cost (which is unlikely), medical and dental premiums alone could cost a couple of two more than \$138,000 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, he/she 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 do not have a spouse or dependent, what happens to the money?**

Until July 1, 2009, MSRS will carry 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. Effective July 1, 2009, your named beneficiary will be able to draw on your account (for health care expenses only), but these payments will be taxable to the beneficiary. This change is due to a recent change in Federal law.

**24. Does a HCSP expire like a health care 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.

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## **Civil Service Staff Only**

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### **1. When was the health care savings plan implemented?**

The HCSP was implemented for civil service employees on August 1, 2008.

### **2. Who made the decision on implementing the health care savings plan?**

The Civil Service Committee recommended implementing a savings plan and presented a proposal to the University's Office of Human Resources (OHR). OHR, University administration, and the Minnesota State Retirement System (MSRS) all approved the proposal.

### **3. How is the account funded? Who makes the contributions?**

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

The current design only impacts civil service employees who 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 have less than 10 years of service when you leave, its value will be paid directly to you as a lump sum.

### **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 department's 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 are not leaving University employment, your vacation time would not be transferred into the HCSP.

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

No. Again, as in Q6 above, since you have not left University employment, this vacation time would not be transferred into the HCSP.

**8. 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 University.

**9. If I do not 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.

**10. 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.

**11. 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 when they are used to pay for allowable medical expenses for you, your spouse, or your legal dependents.

**12. 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.

**13. 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.

**14. Can I amortize my vacation payout?**

No. The University does not offer this option.

**15. 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.

**16. 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 does not 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.

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## **Faculty Only**

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

On May 1, 2008, the Faculty Senate voted to contribute .5 percent of pay to the HCSP and reduce the 2.5 percent currently contributed to the Faculty Retirement Plan (FRP) from 2.5 percent to 2.0 percent. In November, the President requested that faculty and P&As invest more aggressively in this plan, as he strongly supports its tax-savings aspects.

In response to the President's request, the Faculty Senate will hear a proposal for discussion on February 5, 2009, that includes the retention of the full 2.5 percent faculty contribution to the FRP, but a split of the 13 percent University FRP contribution to 11 percent FRP and 2 percent 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 result in any cost savings to the University.

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

No date has been set. The Senate will discuss the new proposal on February 5, 2009, and is scheduled to vote on it at the March 5, 2009, meeting. If it is approved and the administration approves it as well, the change to the Faculty Retirement Plan would need to have Board of Regents approval before it could be implemented. In any case, the current HCSP design for faculty could not be implemented until July 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, University contributions to the Faculty Retirement Plan will be reduced from 13 percent to 11 percent of salary.

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

Under the currently proposed design, the University would realize no cost savings from implementing the HCSP for academics.

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

Faculty would save taxes on the distributions made from the HCSP, as distributions from the Faculty Retirement Plan are taxable when distributed, while distributions from the HCSP are tax-free when made to participants, spouses, or legal dependents.

**7. What are the next steps?**

The Senate will discuss the new proposal on February 5, 2009, and is scheduled to vote on it at the March 5, 2009, meeting. If it is approved and the administration approves it as well, the change to the Faculty Retirement Plan would need to have Board of Regents approval before it could be implemented. If approved by the Board of Regents, 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.

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

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

On June 20, 2008, CAPA voted to contribute 1 percent of salary to the HCSP, without reducing any contributions to the Faculty Retirement Plan (FRP). While this appeared to be a reasonable position in June 2008, as there was every reason to believe that the University would be granting raises in July 2009, the current budget situation has forced administration to take another look at the advisability of instituting new deductions in a year when there may be no raises.

In addition, in November, the President requested that faculty and P&As invest more aggressively in this plan, as he strongly supports its tax-savings aspects. In response to the President's request, the Faculty Senate will hear a proposal for discussion on February 5, 2009, that includes the retention of the full 2.5 percent faculty contribution to the FRP, but a split of the 13 percent University FRP contribution to 11 percent FRP and 2 percent 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 result in any cost savings to the University. CAPA will hear a similar proposal at its February 20, 2009, meeting.

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

No date has been set. The proposal will be discussed at the February 20, 2009, CAPA meeting. In any case, the current HCSP design could not be implemented until July 1, 2009, at the earliest.

### **3. Who will decide whether the HCSP 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, University contributions to the Faculty Retirement Plan will be reduced from 13 percent to 11 percent of salary.

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

Under the currently proposed design, the University would realize no cost savings from implementing the HCSP for academics.

## **6. How will P&As benefit from implementing a health care savings plan?**

P&As would save taxes on the distributions made from the HCSP, as distributions from the Faculty Retirement Plan are taxable when distributed, while distributions from the HCSP are tax-free when made to participants, spouses, or legal dependents.

## **7. What are the next steps?**

CAPA will discuss the proposal at the February 20, 2009, meeting and discuss next steps. If it is eventually approved and the administration approves it as well, the change to the Faculty Retirement Plan would need to have Board of Regents approval before it could be implemented. If approved by the Board of Regents, 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.