MINNESOTA STATE RETIREMENT SYSTEM

HEALTH CARE SAVINGS PLAN
PLAN DOCUMENT

Adopted By: <u>Minnesota State Retirement System</u>
Plan Sponsor

<u>Health Care Savings Plan (HCSP)</u>
Name of Plan

<u>January 1, 2011</u>
Effective Date

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Introduction

The Health Care Savings Plan (HCSP) is an employer-sponsored program administered by the Minnesota State Retirement System (MSRS) that allows employees to save money for reimbursement of post-employment medical and dental expenses and/or health insurance premiums. Contributions are made by Minnesota public employers to a trust on behalf of its employees. Amounts credited to an employee's account can be used to reimburse eligible healthcare expenses after the employee terminates employment from public service or in other limited circumstances.

Participants may choose from seven different investment options provided by the Minnesota State Board of Investment (SBI). It is intended that assets in the program accumulate tax-free, and are paid out to participants on a tax-free basis for reimbursement of eligible healthcare expenses (in accordance with IRS Publication 502 and Internal Revenue Code 213(d)).

Plan Sponsor And Trustees	The Board of Directors of the Minnesota State Retirement System 60 Empire Drive, Suite 300 St. Paul MN 55103 651-296-2761
Plan Administrator Information	The Executive Director of the Minnesota State Retirement System 60 Empire Drive, Suite 300 St. Paul, MN 55103 651-296-2761
Name of Plan	Health Care Savings Plan (HCSP)
Plan Custodian	State Street Bank 2 Avenue de Lafayette Boston, MA 02111
Plan Recordkeeper	ING (Institutional Plan Services, LLC) 1 Heritage Drive North Quincy, MA 02171

Glossary of Terms

Administrator:
Administrator means the Minnesota State Retirement System Executive Director appointed by the Board of Directors to administer the Plan. Administrator shall not include the recordkeeper or any company which issues policies, contracts, or investment media to the Plan in respect of a Participant.

Board of Directors:
The Board of Directors of the Minnesota State Retirement System (MSRS) as established under Minnesota Statutes, section 352.03.

Custodian:
The bank, trust company or other person, if any, selected by the Sponsor as indicated on page 3 of this Plan Document and who is authorized to hold Plan assets in a custodial account in accordance with regulations issued by the Secretary of the Treasury pursuant to Code 410(f).

Dependent:
Includes a spouse and any person who can be legally claimed as a dependent for federal tax purposes. A dependent as defined in Internal Revenue Code section 152.

Fund Trustees:
The MSRS Board of Directors is the trustees of the Health Care Savings Plan (HCSP) Trust Fund.

Plan:
Refers to the MSRS Health Care Savings Plan (HCSP).

Plan Administrator:
Administrator means the Minnesota State Retirement System Executive Director appointed by the Board of Directors to administer the Plan. Administrator shall not include the recordkeeper or any company which issues policies, contracts, or investment media to the Plan in respect of a Participant.

Plan Document:
This document and future amendments to this document.

Plan Sponsor:
Sponsor means the Minnesota State Retirement System Board of Directors. A Plan Sponsor offers said plan and ensures the Plan Administrator operates in compliance with the rules related to said Plan.

Plan Year:
For financial reporting purposes, the plan year will be identified as a fiscal year running from July 1 to June 30. For plan provisions, the plan year will be identified as a calendar year running January 1 to December 31.

State:
Means the State of Minnesota and its political subdivisions, agencies and instrumentalities.

Trust Document:
The legal document which governs and protects the assets of the Plan for the sole benefit of Plan participants.

Legal Authority

State

Minnesota Statutes, Chapter 352.98, authorized MSRS to establish a plan or plans, known as the Health Care Savings Plan (HCSP), through which public employers and employees may save to be reimbursed for post-employment health care expenses. The law mandates MSRS to make available one or more trusts, authorized under the Internal Revenue Code to be eligible for tax-preferred or tax-free treatment.

The MSRS Board of Directors will act as fund trustees and, in accordance with the statute cited above, MSRS shall establish a participant advisory committee for the Plan, made up of one representative appointed by each employee unit participating in the Plan. Each participating unit shall be responsible for the expenses of its own representative. The advisory committee shall meet at least twice a year. The terms of the Plan will be governed under Minnesota law.

Federal

The State, acting through the MSRS, intends that the Trust, hereby established, shall be exempt from income tax and FICA tax as an integral part of the State as provided under the Internal Revenue Code of 1986, as amended (the "IRS Code"), IRS Revenue Ruling 87–2, and other relevant guidance.

Fiduciary Responsibility

The MSRS Board of Directors are fiduciaries as provided in Minnesota Statutes, sections 352.03 and 356A, and as such, the Board of Directors is willing to hold and administer the Trust Fund for the benefit of eligible HCSP participants and beneficiaries under and in accordance with the terms of the HCSP Plan Document and the HCSP Trust Document.

Recordkeeper

The Plan Recordkeeper, as contracted by the Administrator, shall be responsible for the administration of investments held in the Plan. The Plan Recordkeeper's duties shall include:

- Receiving contributions under the terms of the Plan;
- Making reimbursements from Plan assets held in Trust in accordance with written instructions received from an authorized representative of the Plan Administrator;
- Keeping accurate records of the Trust assets and making such records available to the Plan Administrator.

The Plan Recordkeeper's duties shall be limited to those described above. The Administrator shall be responsible for any other administrative duties required under the Plan or by applicable law.

Participation and Contributions

Employer and Employee Participation

Eligibility Criteria
Any employer that makes retirement contributions and takes retirement deductions, on behalf of its public employees and retirees, and forwards those funds to any one of the state pension plans listed below:

- Public Employees Retirement Association (PERA);
- Teachers Retirement Association (TRA);
- Minnesota State Retirement System (MSRS);
- St. Paul Teachers' Retirement Fund Association;
- Duluth Teachers' Retirement Fund Association;
- Minnesota State Colleges and Universities (MNSCU);
- Individual Retirement Account Plan (IRAP);
- University of Minnesota Faculty Retirement Plan;
- Police or Firefighters Relief Associations;
- Volunteer Firefighter Relief Associations; and
- Retirement Plans for the Arts Board & Humanities Commission

Participation Criteria
Like any other collectively bargained benefit, employer participation is voluntary.

Union Employees. Amounts to be deposited into the account must be negotiated or agreed to by both the bargaining unit and the employer.

Non-Union Employees. Amounts to be deposited into the account must be included in a written personnel policy and must cover all employees covered under the personnel arrangement.

Once contributions are approved and established in collective bargaining agreements, all employees covered under the contract must participate as set out in the agreement. An individual employee who meets the eligibility requirements set out in the bargaining agreement may not opt out of the HCSP program, and participation is mandatory, except in limited circumstances as described on page 13.

Funding Sources

An employer may elect to contribute either a specified dollar amount or a percentage of employees' salaries into separate accounts established for each employee in the Trust Fund. Contributions may be derived from one or more of the following sources, as determined by the employer(s):

- **Additional Employer Contributions.** Contributions may be made in addition to the salary and other benefits provided to employees.

- **Mandated Employee Contributions.** The employer may mandate that employees' salaries be reduced to offset contributions.

- **Severance Pay.** Many public employers pay unused vacation and/or sick leave as severance pay at the time an employee terminates employment. An employer may mandate that all or a portion of such severance pay be paid to the Trust Fund.

Employer Responsibilities

Employers shall remit contributions to the Trust Fund within a period that is not longer than is reasonable for the proper administration of the Participant's Account Balance. Plan contributions shall be deemed to be remitted within a period that is not longer than 15 business days following the end of the month in which the amount would otherwise have been paid to the Participant unless specifically stated otherwise in the bargaining agreement or personnel policy

Fixed Assets and Investment Options

Investment Options

The MSRS invests its funds through the State Board of Investment (SBI) in compliance with Minnesota Statutes, Chapter 11A. It shall be the sole responsibility of the SBI to ensure that all investment options offered under the Plan are appropriate and in compliance with any and all state laws pertaining to such investments. Once the funds are invested, in accordance with the Trust Document, they are held in trust for the sole purpose of paying reimbursements for qualified medical expenses and paying administrative expenses. The Trust is for the sole purpose of the participant and cannot be reclaimed by the employer or by creditors of the employer. Participants in the HCSP may choose from seven different investment options, each with varying degree of risk and reward.

The investment options, from highest risk/reward potential to lowest, are:

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

Detailed investment option descriptions are available in the Minnesota Supplemental Investment Fund Prospectus and the MSRS website.

Neither the State of Minnesota nor MSRS guarantees investment performance or return nor assumes any liability for loss in any account.

All investment fees are established by the SBI and are subject to change.

Default Investment Option

Initially, contributions will default to the Money Market Account.

They will remain invested in the Money Market Account until the participant makes his/her own investment designations. A participant may change his/her investment selections at any time. Participants can contribute to as many of the seven available investment options as they wish. Participants will receive an account statement quarterly.

Neither the Administrator, the Trustee, the Custodian, nor any other person shall be liable for any loss incurred by virtue of following the Participant's directions or by reason of any reasonable administrative delay in implementing such directions.

Administrative Features

Plan Year

For financial reporting purposes, the plan year will be identified as a fiscal year running from July 1 to June 30. For plan provisions, the plan year will be identified as a calendar year running January 1 to December 31

Payouts

Eligibility

Participants are eligible to request reimbursement from their account under one or more of the following circumstances:

- Upon termination of employment;
- Upon receipt of a disability benefit from one of the State's public pension plans;
- On a medical leave for six months or longer;
- On a leave of absence for one year or longer.

Hardship withdrawals or loans are not permitted under the Plan.

Returning to work after termination/retirement

Depending on the circumstances, participants may or may not be eligible to request reimbursements from their HCSP if they return to work.

- If participant returns to work with a new employer, then he/she may request reimbursements of the account balance that resulted from previous employment. Contributions to the HCSP that result from his/her new employment are not available for reimbursements unless one or more of the circumstances listed in the previous section ("Eligibility") exists.

- If participant returns to work with a previous employer who sponsored their HCSP and:

  – he/she is eligible for benefits, then they may *not* request reimbursements from the Plan unless one or more of the circumstances listed in the previous section ("Eligibility") exists.

  – he/she is ***not*** eligible for benefits, then they may request reimbursements of the account balance that resulted from previous employment. Contributions to the HCSP that result from their re-employment are not available for reimbursement unless one or more of the circumstances listed in the previous section ("Eligibility") exists.

Allowable Expenses

Expenses are deemed “allowable” if they are for healthcare expenses (as defined in Internal Revenue Code section 213(d)) of an eligible participant, their spouse, legal dependent(s), or for adult children until their 26th birthday.

Reimbursements, including insurance premiums, are payable directly to the participant.

Proof of Expenses

In order to receive reimbursement for Plan allowable healthcare expenses, including insurance premiums, participants must complete the *Health Care Savings Plan Reimbursement Request* form and attach receipts or any other documentation that MSRS determines is necessary.

All claims for reimbursement are verified against IRS Publication 502 to ensure compliance with Internal Revenue Code section 213(d). The annual maximum amount a person can claim for reimbursements of medical expenses subject to Internal Revenue Code section 105(h) in any plan year is $23,000.[1, 2]

There is no annual maximum with respect to healthcare expenses not subject to Internal Revenue Code section 105(h), including reimbursements of health insurance premiums.

MSRS shall not reimburse for any claims other than those allowed under the Internal Revenue Code.

Reimbursement Schedule

All payments for reimbursement will be paid directly to the participant, either by direct deposit into a personal bank account designated by the participant or by check. Out-of-pocket expenses are processed daily. Ongoing installment payments of medical, dental, or long-term care insurance premiums are paid monthly.

MSRS shall establish procedures necessary to process reimbursements and deposit funds to participant's' accounts.

[1] This amount may be adjusted annually based on increases or decreases of inflation for medical expenses and/or premiums.

[2] This annual maximum only applies to out-of-pocket expenses that are covered under Internal Revenue Code

Exemption Rules

An employee shall be ineligible to contribute to the HCSP if MSRS receives a waiver of participation from the employee and determines that the employee falls within any one of the following categories:

- The employee is a foreign national and plans to return to the country in which he or she is a citizen upon termination of public employment.
- The employee will receive employer-paid post-retirement health care coverage through his/her employer (must be provided by an employer other than the employer who is sponsoring the HCSP), or through a spouse's employer. The insurance must be provided for life and at least 70 percent of the cost is paid for by the employer.
- The employee will receive post-retirement health care coverage from the military.

If the employee has an account balance at the time the employee becomes ineligible for future contributions, the funds credited to such account shall be subject to the same terms that apply to the accounts of other Plan participants, including the rules that apply to the following Sections:

- Payout - Eligibility
- Payout - Proof of Expenses
- Payout – Reimbursement Schedule

All requests for exempt status are subject to approval by the MSRS Board of Directors or a designated delegate shall, in its sole discretion, determine whether an individual is ineligible for future contributions under this Section. An employee's election to waive participation is irrevocable.

Designating Account Beneficiary(ies)

The Participant may designate a Beneficiary(ies) to receive any amounts that may be distributed in the event there is no spouse and/or legal dependents. (The Participant's spouse or legal dependents are automatically entitled to any remaining account balance after the death of the Participant.)

A Participant may change the designated Beneficiary(ies) at any time by filing such change with the Administrator in a manner approved by the Administrator. A change in the Beneficiary designation shall take effect on the date received and deemed acceptable by the Administrator.

A surviving spouse or legal dependents shall always supersede a Beneficiary's right to any remaining balance upon the death of the Participant.

Marriage Dissolution: In the event of marriage dissolution, the former spouse of the Participant is no longer eligible to receive the balance of the account upon the death of the Participant unless the divorce decree provides otherwise. If a Participant wishes to keep a former spouse as their designated Beneficiary, a *Beneficiary Designation* form must be completed.

Death of Participant

If an employee participating in the HCSP dies prior to exhausting his/her account balance, the employee's surviving spouse or legal dependent(s) shall be eligible (pursuant to the rules established by MSRS) to be reimbursed tax-free for eligible healthcare expenses until the account balance is exhausted.

If the participant has no spouse or legal dependent(s), then the designated beneficiaries shall be eligible to be reimbursed for healthcare expenses until the account is exhausted. Reimbursements to a beneficiary are subject to state and federal taxes. If the participant has no spouse, legal dependent(s) or designated beneficiaries, then a probate court will determine who is eligible to receive the money for health care reimbursements.

Election to Suspend Reimbursements

A participant may elect to suspend their HCSP reimbursement eligibility for a plan year in which there is "conflicting coverage" because the participant, spouse, or employer contributed to an Health Savings Account (HSA) on behalf of the participant. For administrative purposes, the plan year will be identified as a calendar year running from January 1 to December 31. To suspend the HCSP account, a participant must submit a *Reimbursement Suspension Election* form prior to the beginning of that plan year. The suspension election is effective for that plan year and may not be modified or revoked during that period.

- The suspension election applies to reimbursement of medical expenses; however reimbursement of dental or vision expenses is allowable if a participant meets the criteria (see page 11) to be eligible for reimbursement.
- The suspension election must be renewed each plan year.
- If a participant suspends his/her HCSP account, the Employer shall continue to deposit funds to the account as outlined in the applicable bargaining agreement or personnel policy.
- Participants may not request reimbursement of expenses incurred during the plan year for which the suspension election applies regardless of whether the reimbursement request is submitted during the plan year or subsequent years.

Establishing Plan Rules

The MSRS Board of Directors may establish Plan rules regarding the administrative functions and items that are not clearly articulated in Federal or State Law. The Plan rules are not effective until formally adopted by the Board of Directors at a public meeting, and are not subject to the State of Minnesota rule making process of the State.

Amendment or Termination of Plan

Procedures for Amending the Plan

The MSRS Board of Directors has the authority to amend the Plan at any time, in whole or in part. Amendments to the HCSP shall not be effective unless officially adopted by the MSRS Board of Directors. These amendments must be made at a public meeting. Plan participants will be notified of any Plan changes.

The Plan Administrator shall provide a copy of any Plan amendments to the Recordkeeper.

Changes imposed by the Internal Revenue Service, either by law change, regulations or ruling, shall be effective immediately without approval from the MSRS Board of Directors.

Plan Termination

In the event the Plan is lawfully terminated for any reason, amounts not credited to participants' accounts or used for paying fees and reasonable administrative expenses of the Trust, shall revert back to the State of Minnesota and governmental employers participating in the Plan. Amounts reverted will be made on a pro-rated basis. The pro-rated amount will be calculated by determining the percentage of assets attributable to each governmental unit in relation to all the Plan assets. Any amounts remaining at termination of the Plan will be divided as pro-rated to governmental units covering employees in the HCSP.

Amounts credited to participant accounts will remain in the participant accounts. Individual participants will continue to utilize their accounts as set out in this Plan Document until their account balance is exhausted.

Fees and Expenses

Administrative Fee
Administrative fee(s) are established by the MSRS Board of Directors and are subject to change.

The MSRS Board of Directors, in their capacity as HCSP fund trustees, set the annual administrative fee at 0.65 percent. Fees are subject to change. The fee is prorated and deducted from participant accounts on a monthly basis. Fees shall not exceed $140 per year.

Investment Expenses
Annual investment expenses are charged by the State Board of Investment. Fees range from .01 percent to .34 percent and are subject to change.

Employer Fees
There are no fees charged to the employer; all fees, administrative and investment are paid by the participant. All fees are subject to change.

Miscellaneous

Account Corrections
It shall be the Participant's obligation to review all confirmation statements and quarterly statements for discrepancies or errors. Account corrections will be made only for errors which are communicated by the Participant to the Administrator within 60 calendar days of the last quarter end. After this 60 days, account information shall be deemed accurate and acceptable. If the Participant notifies the Administrator after this 60-day period, the correction will only be made from the date of notification forward and not on a retroactive basis.

Assignability of Participant Account
None of the money in the HCSP is assignable either in law or in equity or subject to estate tax, or to execution levy, attachment, garnishment, or other legal processes, except as provided in Minnesota Statutes, sections 518.58, 518.581, or 518A.53.