MERS®
Municipal Employees' Retirement System

2019

Annual Retirement Conference

HCSP from A-Z

Presented by: John Waugh

MERS Benefit Plan Advisor

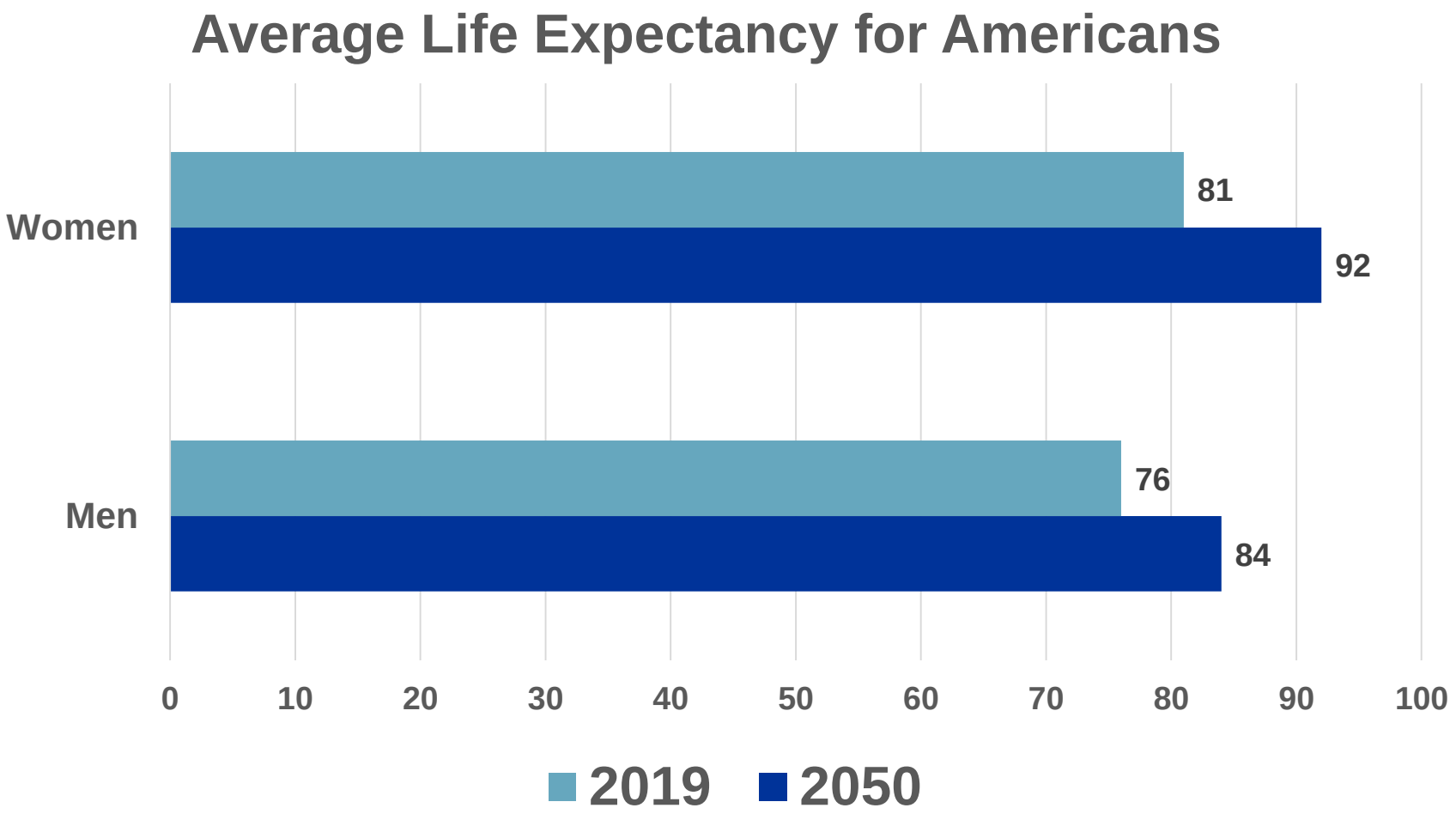
Agenda

- Factors Impacting Health Care in Retirement
- HCSP Overview
- Plan Design Strategies
- Investment Considerations
- Using the Account at Separation from Employment
- Key Takeaways

Factors Impacting Health Care in Retirement

Factors Impacting Health Care in Retirement

Increasing Life Expectancy



Source: MacArthur Research Network on an Aging Society

Factors Impacting Health Care in Retirement

Increasing Health Care Costs

2017:
$10,739/year
out of pocket

1960:
$146/year
out of pocket

Source: www.thebalance.com

Factors Impacting Health Care in Retirement

Medicare Part B Premiums Rising

7.7%

(1966 – 2017)

Source: Centers for Medicare and Medicaid Services

Factors Impacting Health Care in Retirement

Not All Expenses Covered by Medicare

- Long term care
- Dental expenses
- Vision expenses
- Hearing aids

Health Care Costs Impact on Retirement

Delayed Retirement

Increased Stress

Compromises to Health

Reduced Standard of Living

Health Care Savings Program Overview

HCSP Is Not an HSA

	MERS Health Care Savings Program	Health Savings Account
Overview	Employer-sponsored, tax-free account created through a Section 115 Trust	Tax-advantaged account for qualified medical expenses tied to a high-deductible health plan
Using the Account	Can be used once participant has left employment	Can be used at any time
Insurance Premiums	May be used to pay health insurance premiums	20% penalty and taxes apply, unless used for COBRA or Medicare premiums
Employer Contributions	• May include a vesting schedule • Can fund from employer's RHFV • Retiree-only group allowed	• No vesting schedule • Contributions allowed for active employees only
Employee Contributions	Mandatory	Voluntary
Contribution Limits	n/a	• Self $3,500 or family $7,000* • Catch-up contributions available

** 2019 contribution limits*

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How Health Care Savings Program Works

1. Contributions are deposited
2. Assets are invested
3. After separation, assets are used for qualified medical expenses, including retiree health care premiums through the Health Care Exchange

What is the Health Care Exchange?

A health care "marketplace" where MERS retirees and their spouses can buy post-employment insurance plans including:

- Pre-65 coverage
- Medicare Advantage
- Medicare supplement
- Medicare Part D
- Dental
- Vision

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HCSP Program Benefits

Employer Benefits

- No administrative cost to employer
- No OPEB liability for active employees
- Can reduce or eliminate OPEB liability for retirees
- Tax-free and FICA exempt
- MERS administers the plan and acts as fiduciary

Employee Benefits

- Intentionally save for post-employment health care
- Tax free in and no tax out
- Unique beneficiary options
- MERS investment menu
- Freedom to choose the best health plan to meet needs vs. the employer chosen plan

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Plan Design Strategies

Contribution Options

Basic Employer Contributions

- May be OR %
- A vesting cycle may be assigned to employer dollars

Examples

- A city will contribute 1% of participant's average wages
- A village will contribute $500 annually
- A township will contribute $100 each pay period for participants with a minimum of 5 years of service

Tax-free Employee Mandatory Salary Reduction

- Either OR % reduction of the employee's salary

Examples

- All participants have 1% salary reduction
- All participants with a minimum of 5 years have salary reduction of $100 per pay period

Flat Dollar vs. Percentage of Pay Example

Assumptions	
Starting Salary	$32,500
Annual Wage Increase	2%
Current age	25
Retirement Age	65
Investment Return	6%

30% More!

	% of Pay *(4% / pay period*)*	**Flat Dollar** *($50 / pay period*)*	**Difference**
Total Contributions	$78,523	$52,000	$26,523
Total Investment Earnings	$202,962	$164,509	$38,453
Account Balance at 65	**$281,485**	**$216,509**	**$64,976**

**Assumes 26 pay periods per year*

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Contribution Options

Tax-Free Leave Conversion

- All or a portion of leave
- Either annually or at termination

Examples

- Sick time
- Vacation
- Paid Time Off (PTO)
- Longevity Severance

Benefits of Leave Conversion:

- Increased savings for employees
- No taxes paid on conversions
- Limited large lump sum payouts for employers
- Employers can pay out at lower wages

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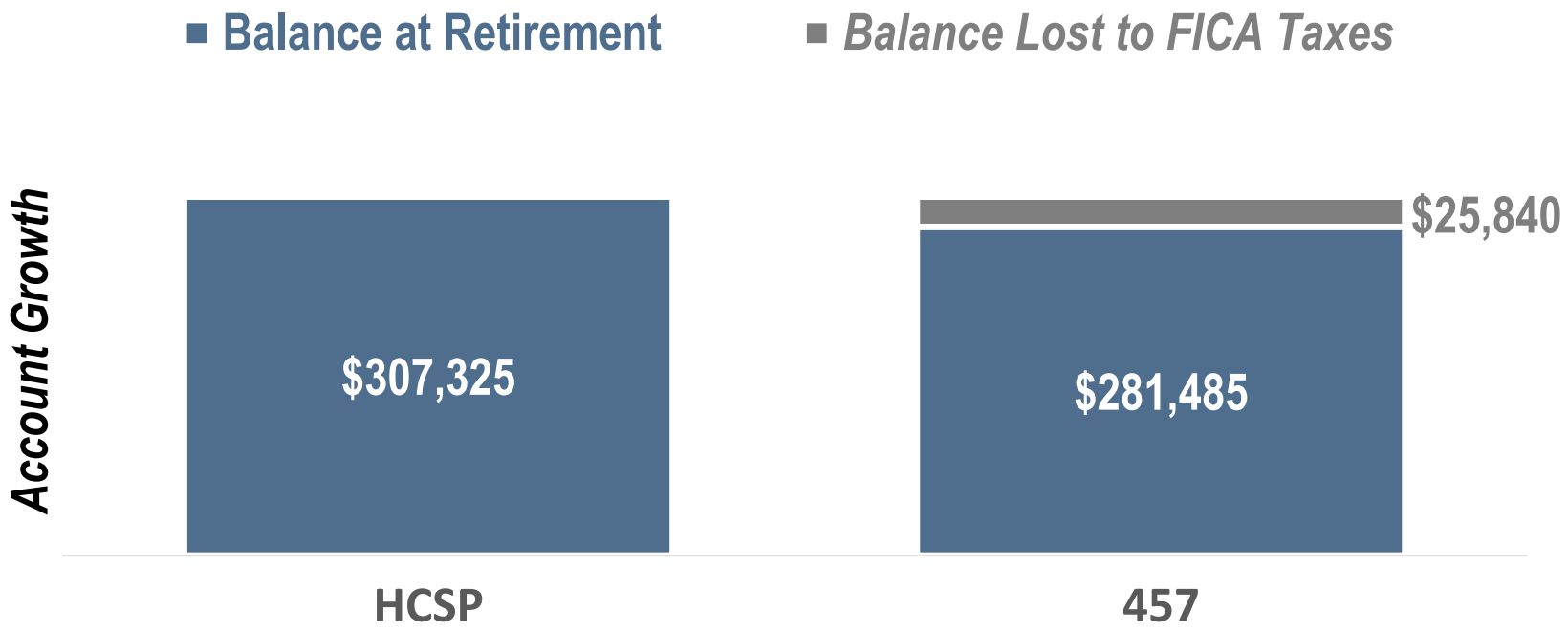
Benefits of Tax-Free Savings

Tax Benefit Comparison

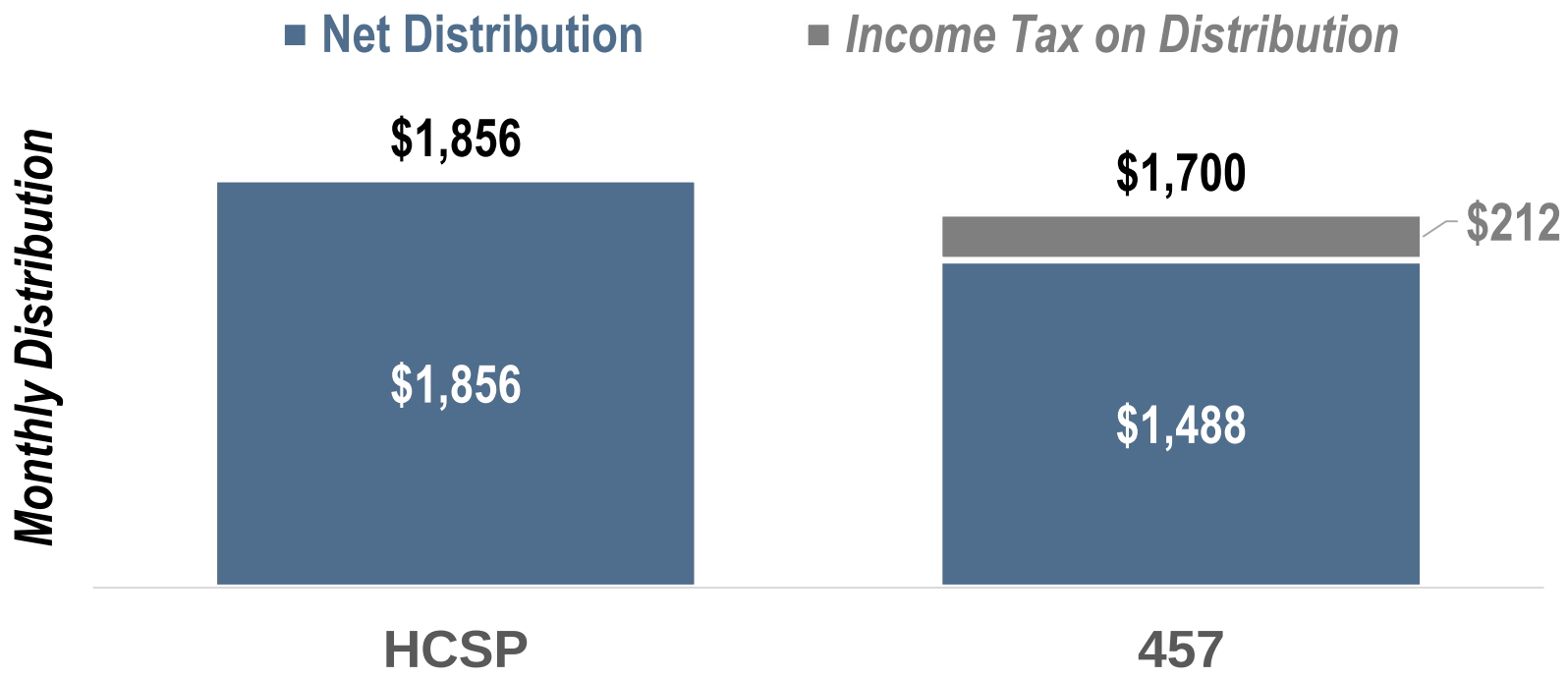
Sample Paycheck	No Deductions	HCSP	457
Gross Wages (bi-weekly)	**$1,250.00**	**$1,250.00**	**$1,250.00**
HCSP Contribution	0.00	**-50.00**	0.00
457 Contribution	0.00	0.00	**-50.00**
Payroll Deductions*			
Federal Income Tax	-125.00	*-119.00*	*-119.00*
Social Security Tax	-77.50	*-74.40*	-77.50
Medicare Tax	-18.13	*-17.40*	-18.13
MI State Income Tax	-53.13	*-51.00*	*-51.00*
Net Pay (take-home pay):	**$976.24**	**$938.20**	**$934.37**

**Taxes factored as bi-weekly salary, and filing single.*

Long-Term Benefits of Tax-Free Investing



Long-Term Benefits of Tax-Free Investing



**Income taxes on 457 distributions assumed to be 12.5% in this example.*

Contribution Options

Post-Tax Voluntary Contributions

- May voluntarily contribute on a post-tax basis
- May start and stop contributions at any time
- Medical expense reimbursement still tax-free

Providing Retiree Health Care Stipend

- Employers can offer a stipend in lieu of retiree health care, which would be deposited into a tax-advantaged investment program, such as the MERS Health Care Savings Program
  - Can combine stipend with access to a private health care exchange to help transition retirees away from group coverage
  - Helps employers reduce OPEB liability while maintaining commitment to providing quality benefits
  - Reduced administrative cost and challenges for employers as compared to supporting a group plan

Investment Considerations

Simplified Investment Options

1

"Do it for me"

Fully diversified target date funds that automatically adjust over time

2

"Help me do it"

Prebuilt portfolios that are monitored and rebalanced quarterly

“Do it for me”

MERS Retirement Strategies are a cost effective all-in-one diversified portfolio

Consists of 11 asset classes:

- Short-Duration Bonds
- Inflation-Protected Securities
- Core Bonds
- High-Yield Bonds
- Commodities
- Global Real Estate Investment Trusts (REITs)
- Emerging Market Stocks
- International Stocks
- US Small-Cap Stocks
- US Mid-Cap Stocks
- US Large-Cap Stocks

“Do it for me”

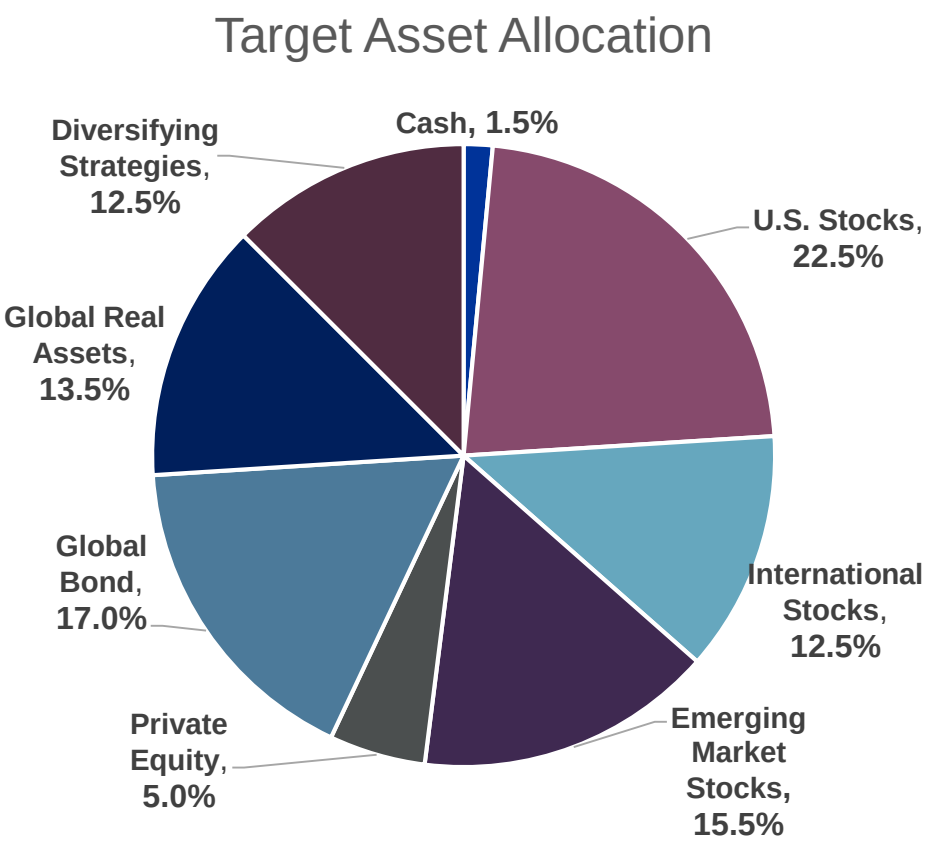
MERS Retirement Strategies - Target Date Funds

**Other includes REITs and Commodities*

"Help me do it"

1) Pre-Built Portfolios
   - Professionally managed portfolios each with a target asset allocation that is automatically rebalanced
2) Funds to build your own portfolio
   - Small Cap Stock Index
   - Mid Cap Stock Index
   - Large Cap Stock Index
   - Real Estate Stock
   - Bond Index
   - High Yield Bond
   - International Stock Index
   - Emerging Market Stock
   - Short-Term Income

MERS Total Market Portfolio



Thinking About Investing for Health Care

Average local government employee, retiring at age 65

Public safety worker, retiring at age 55 or younger

Leaving employment to work for self or job that does not provide benefits

Using the Account at Separation

Eligibility and Beneficiaries

At Separation

Participant, spouse and any legal dependent(s) may use the account for *tax-free* medical expense reimbursement

Upon Death

Spouse and any legal dependent(s) may continue to use the account for *tax-free* medical expense reimbursement

Upon Death

A named primary beneficiary may use the account for *taxable* medical expense reimbursement

Upon Death

A named contingent beneficiary may use the account for *taxable* medical expense reimbursement

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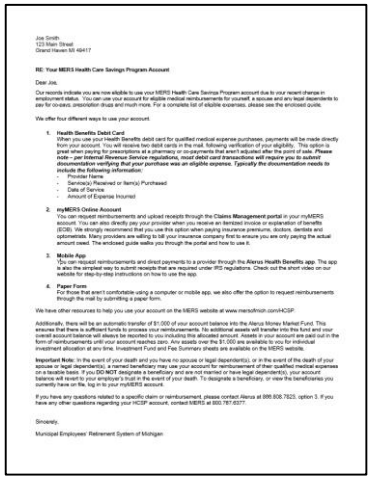
Communication Upon Separation



Joe Smith
123 Main Street
Grand Haven MI 49417

RE: Your MERS Health Care Savings Program Account

Dear Joe,

Our records indicate you are now eligible to use your MERS Health Care Savings Program account due to your recent change in employment status. You can use your account for eligible medical reimbursements for yourself, a spouse and any legal dependents to pay for co-pays, prescription drugs and much more. For a complete list of eligible expenses, please see the enclosed guide.

We offer four different ways to use your account.

1. **Health Benefits Debit Card**
   When you use your Health Benefits debit card for qualified medical expense purchases, payments will be made directly from your account. You will receive two debit cards in the mail, following verification of your eligibility. This option is great when paying for prescriptions at a pharmacy or co-payments that aren't adjusted after the point of sale. *Please note – per Internal Revenue Service regulations, most debit card transactions will require you to submit documentation verifying that your purchase was an eligible expense. Typically the documentation needs to include the following information:*
   - Provider Name
   - Service(s) Received or Item(s) Purchased
   - Date of Service
   - Amount of Expense Incurred
2. **myMERS Online Account**
   You can request reimbursements and upload receipts through the **Claims Management** portal in your myMERS account. You can also directly pay your provider when you receive an itemized invoice or explanation of benefits (EOB). We strongly recommend that you use this option when paying insurance premiums, doctors, dentists and optometrists. Many providers are willing to bill your insurance company first to ensure you are only paying the actual amount owed. The enclosed guide walks you through the portal and how to use it.
3. **Mobile App**
   You can request reimbursements and direct payments to a provider through the **Alerus Health Benefits app**. The app is also the simplest way to submit receipts that are required under IRS regulations. Check out the short video on our website for step-by-step instructions on how to use the app.
4. **Paper Form**
   For those that aren't comfortable using a computer or mobile app, we also offer the option to request reimbursements through the mail by submitting a paper form.

We have other resources to help you use your account on the MERS website at www.mersofmich.com/HCSP.

Additionally, there will be an automatic transfer of $1,000 of your account balance into the Alerus Money Market Fund. This ensures that there are sufficient funds to process your claims. All additional assets will transfer into this fund and your overall account balance will always be reported to you including this allocated amount. Assets in your account are paid out in the form of reimbursements until your account reaches zero. Any assets over the $1,000 are available to you for individual investment allocation at any time. Investment Fund and Fee Summary sheets are available on the MERS website.

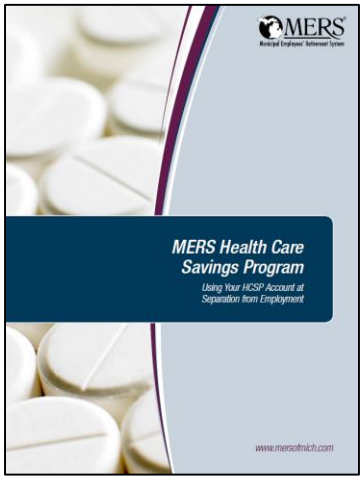
Important Note: In the event of your death and you have no spouse or legal dependent(s), or in the event of the death of your spouse or legal dependent(s), a named beneficiary may use your account for reimbursement of their qualified medical expenses on a taxable basis. If you DO NOT designate a beneficiary and are not married or have legal dependent(s), your account balance will revert to your employer's trust in the event of your death. To designate a beneficiary, or view the beneficiaries you currently have on file, log in to your myMERS account.

If you have any questions related to a specific claim or reimbursement, please contact Alerus at 866.808.7823, option 3. If you have any other questions regarding your HCSP account, contact MERS at 800.767.6377.

Sincerely,

Municipal Employees' Retirement System of Michigan

Letter with benefit information



Guide to using HCSP account

Health Benefits debit card

Eligible Expenses

Health Care Savings Program

Reimbursable Health Care Expenses

- Acupuncture
- Alcoholism or drug dependency treatment and treatment centers
- Ambulance
- Anesthesiologist
- Artificial limbs and teeth
- Bandages (Band-aids, elastic wrap)
- Birth control pills and devices
- Blood pressure monitoring devices
- Braille books and magazines (to the extent exceeding prices for regular books and magazines)
- Car (with special medical equipment)
- Childbirth preparation classes for mother, excluding portion for mother's coach
- Chiropractor
- Christian Science practitioner
- Clinic
- Co-insurance (health, dental and vision)
- Co-payments (health, dental and vision)
- COBRA premiums
- Cold/hot packs
- Contact lenses, solution and cleaners
- Contraceptives
- Crutches
- Dental treatment, including dentures, implants and orthodontics (excluding whitening)
- Dermatologist
- Diabetic supplies
- Diagnostic devices/services (e.g., MRI, CT Scan)
- Gynecologist
- Hearing aids and batteries
- Home modification to accommodate handicapped person [1]
- Hospital services
- Incontinence supplies
- Insulin and diabetic supplies
- Insurance premiums for medical, dental, vision, or long-term care [2]
- Laboratory fees
- Lactation supplies
- Lip-reading lessons
- Lodging for medical care [1]
- Long-term care services and premiums (paid on annual basis) [1]
- Mastectomy bras
- Medical supplies
- Medicare Part B, C and D premiums
- Medications which require a prescription
- Mental institution care (mentally ill person unsafe when left alone)
- Mentally handicapped, special home for nursing services [1]
- Midwife
- Neurologist
- Nursing care
- Nursing home (if for medical reasons)
- Obstetrician
- Ophthalmologist
- Optometrist
- Organ transplant, medical expenses of donor or prospective donor
- Pedi
- Phys
- Phys
- Podi
- Prac
- Preg
- Pres
- Psyc
- Psyc
- Psyc
- Rehy
- Rent
- Sex
- Smo
- Spec men
- Spee
- Spou
- Steri
- Surgery and related treatment (except cosmetic)
- Telephone for hearing impaired
- Television closed caption decoder equipment which displays the audio part of TV programs for hearing impaired
- Therapy received as medical treatment
- Thermometers
- Transportation expenses for essential medical care, including mileage and parking [1]
- Tuition at special school for special needs program [1]

Examples of Eligible Expenses

- Insurance Premiums
  - Medical (Pre and Post 65)
  - Dental
  - Vision
  - Long-term care
  - COBRA
- Deductibles & Co-pays
- Prescriptions
- Therapy
- Medical equipment

IRS Publication 502 provides a complete list of covered expenses.

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Reimbursement/Payment Options

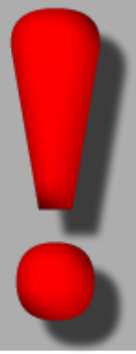
Four Options:

Health Benefits Debit Card

myMERS Online Account

Mobile App

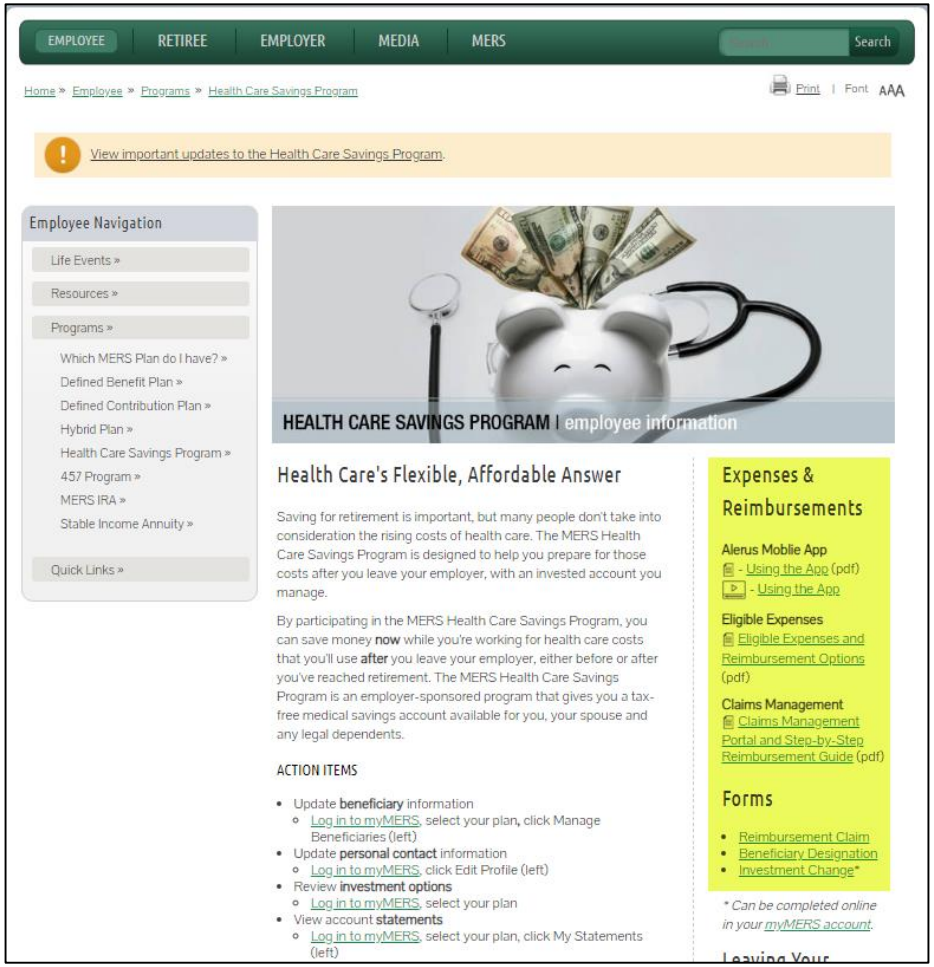
Paper Form



Always save receipts!

Resources

MERS Website – *www.mersofmich.com/HCSP*



Key Takeaways

Key Takeaways

Health care expenses in retirement and Medicare Part B premiums continue to rise

HCSP is a tool that can help both employers and employees address post-employment health care costs

- Provides tax-free savings
- MERS serves as plan fiduciary
- Unique beneficiary structure

Flexible contribution structure to meet any budget

Key Takeaways

Access to MERS' professionally managed investment menu

Variety of payment and reimbursement options

Contacting MERS of Michigan

MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

1134 Municipal Way
Lansing, MI 48917

800.767.MERS (6377)

www.mersofmich.com

This presentation contains a summary description of MERS benefits, policies or procedures. MERS has made every effort to ensure that the information provided is accurate and up to date. Where the publication conflicts with the relevant Plan Document, the Plan Document controls.