



Overview of MERS Health Care Savings Program and Retiree Health Funding Vehicle

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2020





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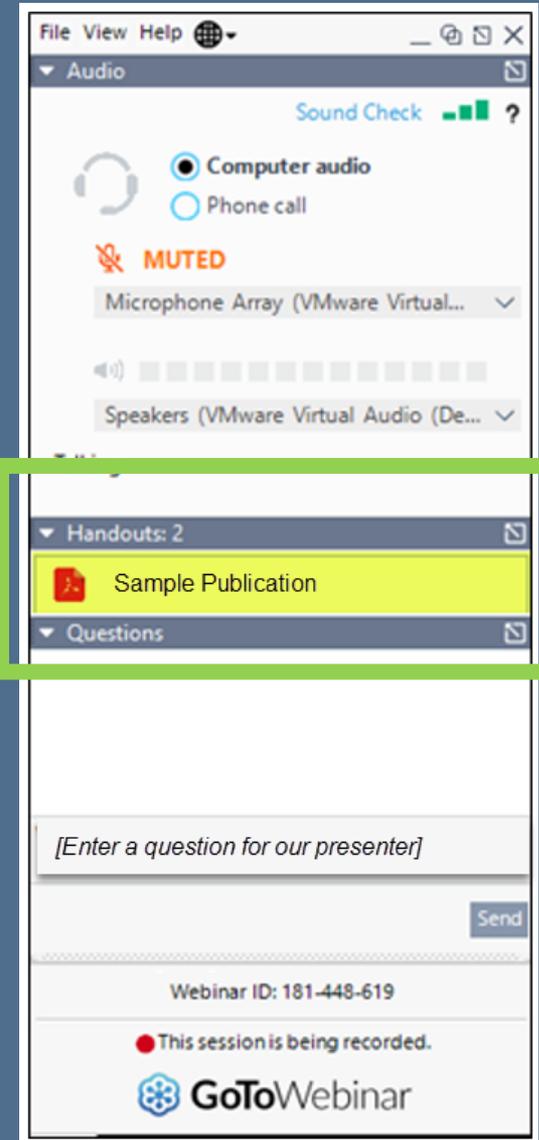
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Publications

A copy of this presentation and additional publications on this topic are available for you to download

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Agenda

- What is Other Post Employment Benefits (OPEB) and why should you prefund it?
 - Public Act 202
 - OPEB management best practices
- MERS Retiree Health Funding Vehicle (RHFV)
 - How RHFV works
 - RHFV investment overview
- Health Care Savings Program (HCSP)
 - How HCSP works
 - HCSP investment menu
 - HCSP eligibility and uses

What is OPEB?

- Other Post-Employment Benefits (OPEB) are benefits
 - other than pension benefits – that employers provide to their employees after they leave employment
- Any of the following benefits are considered OPEB:
 - Medical, dental and vision insurance
 - Prescription drug coverage
 - Life, disability, and/or long-term care insurance
 - Stipends used to obtain coverage

Why Should you Prefund OPEB Liability?

- Advantages of prefunding OPEB include:
 - Offsetting long-term health care premium inflation
 - Lowers impact of increasing life expectancy
 - Reducing negative impacts to credit ratings
 - Improved balance sheet
 - Increased sustainability of benefits to current and future retirees
- Due to underfunding, many municipalities are looking for strategies to manage or reduce OPEB liability
- Growing attention and awareness of OPEB liability and the impact on communities makes understanding your options a critical part of OPEB management

Best Practices - Plan Funding

- Pay Normal Cost for employees eligible for retiree health care that were hired after June 30, 2018
- Reduce OPEB liability by contributing additional funds to qualified medical trust such as MERS Retiree Health Funding Vehicle
- Implement amortization of liability to maximum of 20 years (goal of minimum funding of 40%)

Best Practices - Modern Plan Design

- Cost sharing of premiums
- Increase co-pays and/or deductibles
- Change vesting requirements for eligibility
- Enroll new hires in a defined contribution retiree health care plan, such as MERS Health Care Savings Program
- Consider buyouts of retiree health care
- Regularly shop carriers and plans to ensure reasonable costs
- Move to a stipend arrangement for retirees vs. employer sponsored retiree health insurance plan

OPEB Management Programs

- MERS created a Section 115 Governmental Integral Part Trust with an IRS Private Letter Ruling
- From this trust we created two programs that can be used together or independently:



Retiree Health Funding Vehicle



Health Care Savings Program

**Which OPEB
management
programs do you
have?**



MERS Retiree Health Funding Vehicle

Retiree Health Funding Vehicle (RHFV)



Retiree Health Funding Vehicle

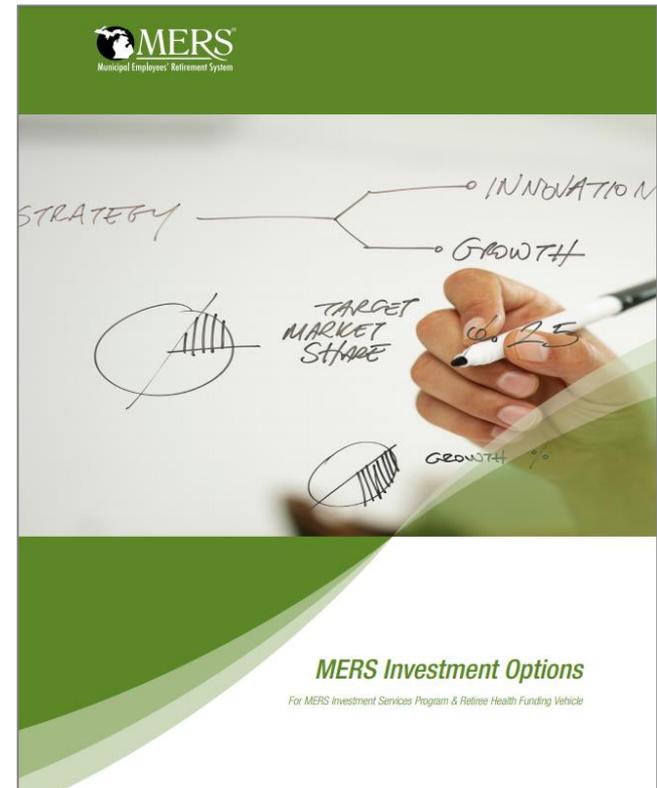
- RHFV allows employers to invest assets earmarked for funding OPEB expenses
- Investment returns may reduce required contributions and unfunded liability
- MERS economies of scale provides cost-effective investment options and plan administration
- Can be used with the MERS Health Care Savings Program to further offset OPEB Liability

How RHFV Works

- The municipality determines the amount and frequency of contributions to the trust
 - Additional direction from actuary and/or auditor
- The municipality selects investments from the MERS Investment Menu
- MERS sends quarterly statements detailing plan balance, asset allocation, fees, etc.
- The municipality requests distributions through the online employer portal and receives funds via direct deposit within 3-5 business days

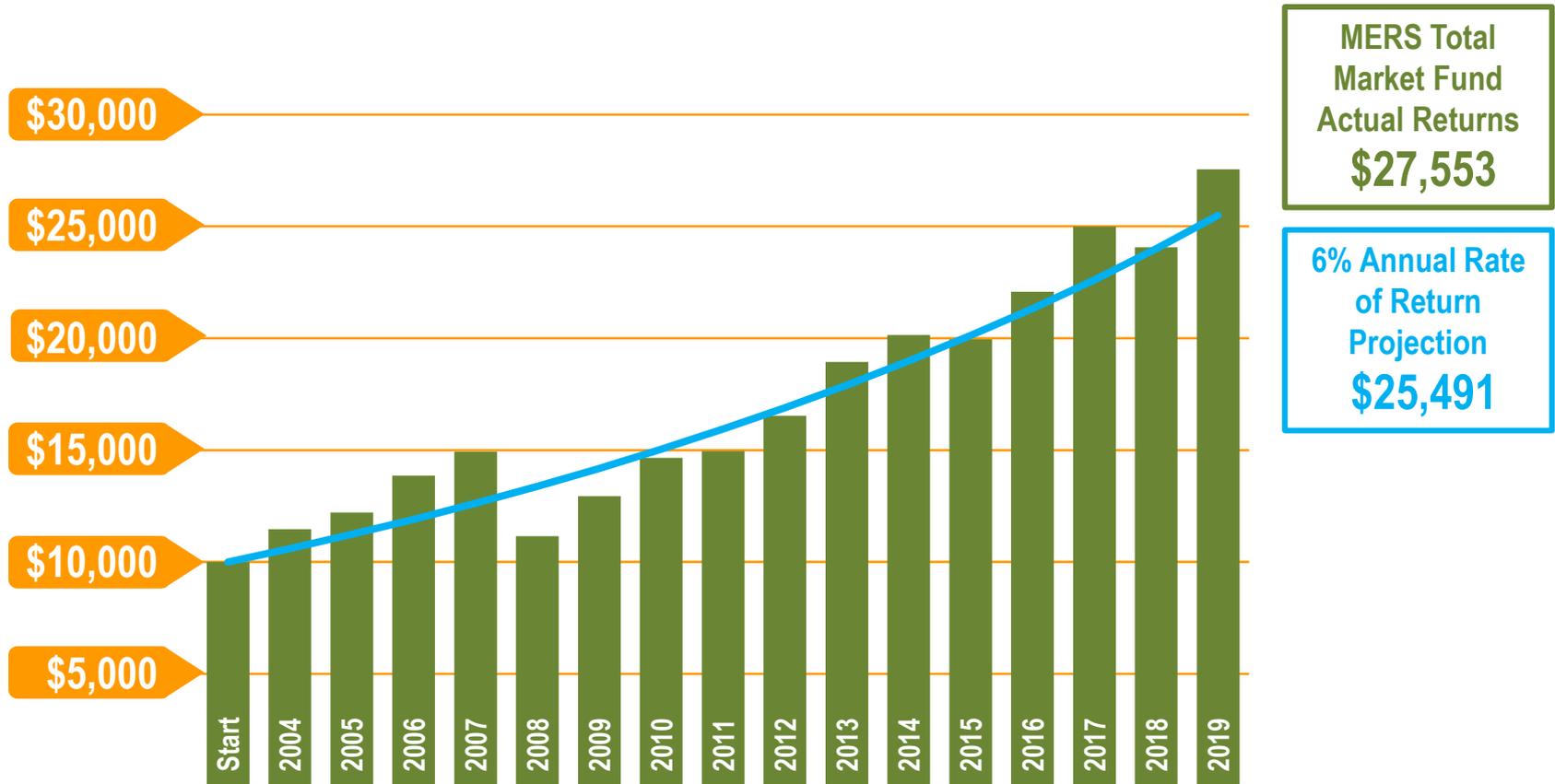
RHFV Investment Options

- MERS makes investing easy by offering several fully diversified, professionally managed portfolios
- Individual funds can be used to build a custom portfolio
- MERS performs the necessary research, due diligence and monitoring to ensure high-quality options



Actual Growth of Assets

\$10,000 invested in MERS Total Market Portfolio vs. 6% rate of return



** Actual investment returns are shown net of fees*



MERS Health Care Savings Program

Health Care Savings Program (HCSP)



Health Care Savings Program

- HCSP helps participants save for post-employment health care expenses
- There is no possibility of unfunded OPEB liability when HCSP is offered to active employees
- A stipend in lieu of group health coverage can be offered to retirees, further reducing OPEB liability
- Qualifies as Minimum Essential Coverage under the Affordable Care Act

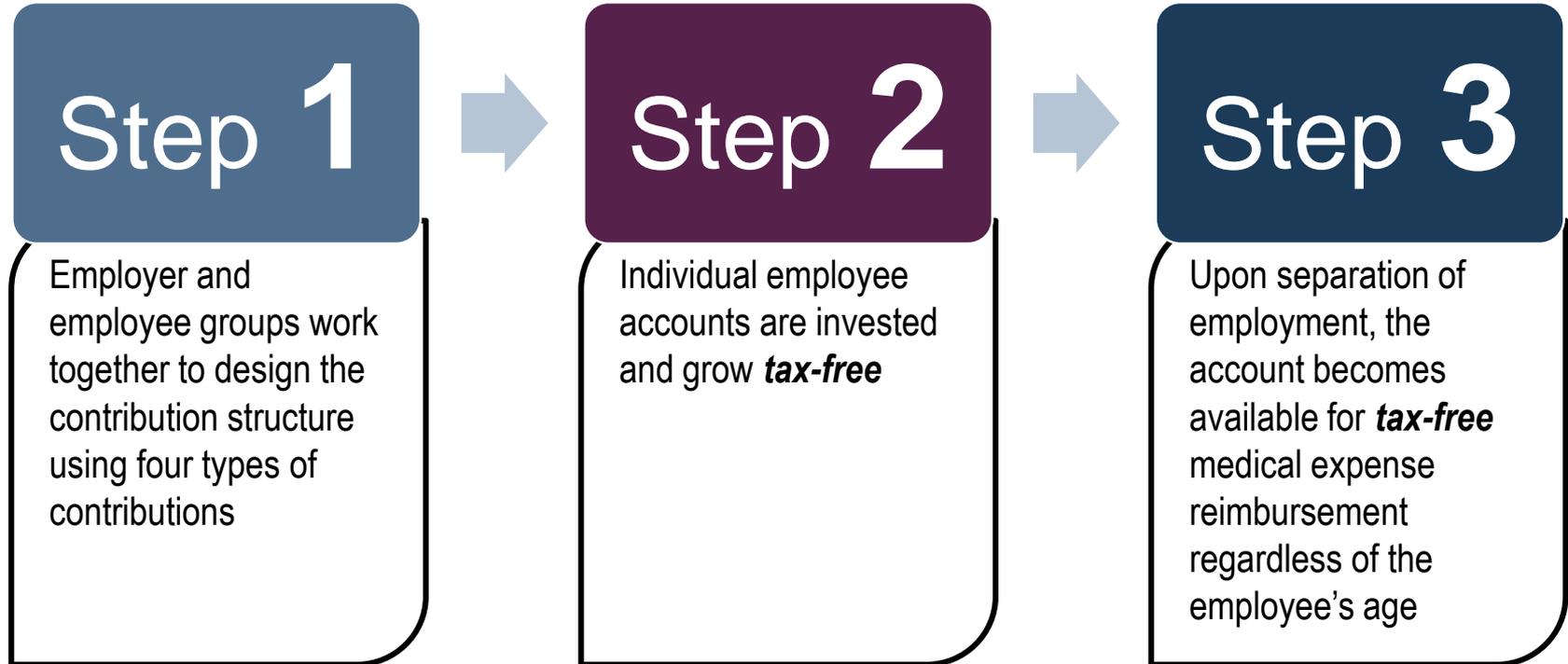
Tax-Free Medical Savings Accounts

- Individual, tax-free medical savings account for qualified medical expenses
 - Employees invest **tax-free**
 - Eligible medical expense withdrawals are **tax-free**
 - Employers save on FICA taxes (7.65%)
- Employees can use their account post-employment, regardless of age

What does a triple tax advantage mean?

- Contributions to the account are tax-free
- Assets are invested tax-free
- Tax-free spending on qualified medical expenses

How the Program Works



Contribution Options

Any combination of these contribution options may be used

Basic Employer Contributions

- May be a percentage or flat-dollar amount
- A vesting cycle may be assigned

Tax-Free Mandatory Salary Reduction

- Either a percentage or a flat dollar reduction of the employee's salary
- Submitted through payroll deduction

Tax-Free Leave Conversion

- Convert all or a portion of leave into the program either annually or at termination

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

Streamlined Investment Menu

- Understanding the decision-making process has helped us design a strategic investment menu
- Grouping investment options into logical categories helps participants easily create fully diversified portfolios
- Participants are defaulted into an age-appropriate target date fund

Investment Categories



“Do it for me”

Fully diversified target date funds that automatically adjust over time



“Help me do it”

Individual funds and prebuilt portfolios that are monitored and rebalanced quarterly

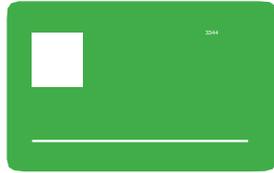
Eligible Reimbursements

- Upon leaving employment, employees can use their vested account balance for tax-free reimbursement of eligible medical expenses, regardless of age
- Examples of eligible reimbursements:
 - Co-pays, deductibles, insurance premiums
 - Ambulance services
 - Vision and dental services
 - Physical therapy
 - Long-term care insurance
 - Medicare premiums
 - Over-the-counter drugs

A complete list of eligible medical expenses is described in Section 213(d) of the Internal Revenue Service Tax Code.



Using the Account



Visa® Debit Card

Pay for eligible expenses at time of sale



Mobile App & myMERS portal

Manage expenses, make direct-to-provider payments, request reimbursements, upload receipts



Mail

Request reimbursements

**Is HCSP just
another HSA?**

HCSP Is Not a Health Savings Account

	MERS Health Care Savings Program	Health Savings Account (HSA)
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	<ul style="list-style-type: none"> • May include a vesting schedule • Can fund from employer's RHFV • Retiree-only group allowed 	<ul style="list-style-type: none"> • No vesting schedule • Contributions allowed for active employees only
Employee Contributions	Mandatory	Voluntary
Contribution Limits	n/a	<ul style="list-style-type: none"> • Self \$3,550 or family \$7,100* • Catch-up contributions available

* 2020 contribution limits

The Benefit That Keeps Working

Upon Enrollment

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



Upon Death of Retiree

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



Upon Death of Spouse/Legal Dependent

Primary Beneficiary may use the account for medical expense reimbursement (taxed at time of payment)



Upon Death of Primary Beneficiary

Contingent Beneficiary may use the account for medical expense reimbursement (taxed at time of payment)

The ability to name beneficiaries who can use your account balance after you pass away is **unique to MERS**

Key Takeaways

- Joining an established Section 115 Governmental Integral Part Trust saves you time and money – MERS has already done the work for you
- Employers can use RHFV and HCSP together to further offset OPEB liability



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What questions can we answer?

Contacting MERS of Michigan

MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

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800.767.MERS (6377)

www.mersofmich.com



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