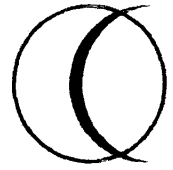


# A Health Care Savings Plan (HCSP) ADVISOR



Summer 2006

Administered by Minnesota State Retirement System (MSRS)

## HCSP death benefit changes

*Affects accounts with no spouse or legal dependents*

**T**o comply with a recent change in IRS regulations, the Health Care Savings Plan (HCSP) will now offer a life insurance benefit to a participant's beneficiary. This change was effective July 1, 2006.

The new IRS regulation only affects those HCSP accounts where the participant designated a beneficiary because the participant did not have a spouse or legal dependent.

### How it works

Before July 1, when a participant died

and had a balance in their HCSP account, the beneficiary had to use the remaining funds for reimbursement of eligible medical expenses on a taxable basis. With the change, the beneficiary will now receive a life insurance benefit instead of reimbursement of medical expenses.

### Value of benefit

Following the IRS rules and state law, we will base the value of the life insurance benefit on the remaining HCSP account balance. See the table below for account balances and insurance values.

### What remains the same

The changes will not affect the tax-free reimbursement of eligible medical expenses for participants, their spouses and legal dependents. When a participant dies, their spouse and legal dependents can use the remaining account balance for tax-free reimbursement of eligible medical expenses.

### For more information

If you have questions about your HCSP account, please contact us at 651-296-2761 or 1-800-657-5757. ●

Account Balance	Insurance Value
Less than \$500	\$0
\$500 - \$4,999	\$2,500
\$2,500 - \$4,999	\$5,000
\$5,000 - \$7,499	\$7,500
\$7,500 - \$9,999	\$10,000
\$10,000 - \$14,999	\$15,000
\$15,000 - \$19,999	\$20,000
\$20,000 - \$24,999	\$25,000
\$25,000 - \$29,999	\$30,000
\$30,000 - \$34,999	\$35,000
\$35,000 - \$39,999	\$40,000
\$40,000 - \$44,999	\$45,000
\$45,000 - \$49,999	\$50,000
\$50,000 or more	\$50,000

The proposed tier schedule shown above is subject to change.

## What changes, what remains the same...

### Who the change affects...

Jennifer is a widow with two adult children who, according to the IRS definition, are not legal dependents. When Jennifer dies, her HCSP account balance is \$4,000. Her designated beneficiaries will be paid a lump sum life insurance benefit of \$5,000. ●

### Who the change does not affect...

Don is married and retired. When he dies, his HCSP account balance is \$6,000. His wife, Mary, would continue to use this account balance to receive reimbursement of her healthcare expenses on a tax-free basis. ●