PERA

EMPLOYER EDUCATION
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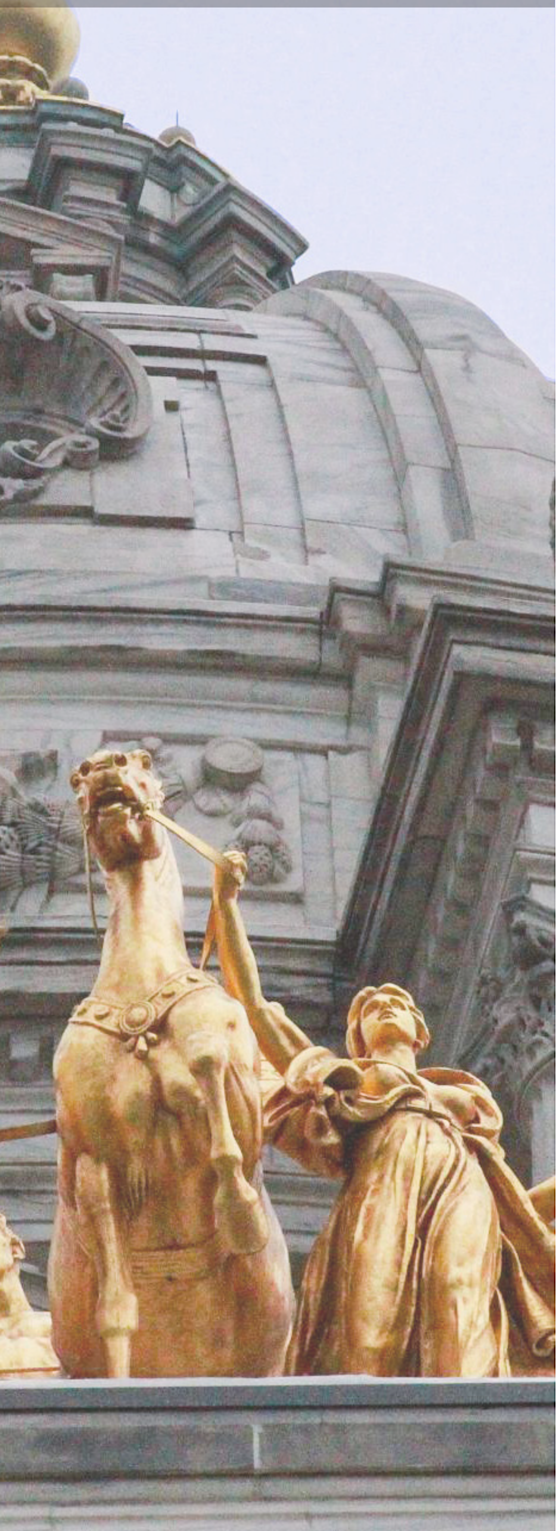
FACT SHEET



Health Care Savings Plan

The Minnesota Health Care Savings Plan is a program sponsored by the Minnesota State Retirement System (MSRS) that allows employees to save money to pay post-employment medical expenses and/or health insurance premiums. Contributions to the plan are tax-free and, because any money withdrawn is used to pay medical expenses, the dollars remain tax-free.

Employees can draw from their account, regardless of age,

- upon termination of employment (retirement, layoff) from the employer,
- while collecting a disability benefit from the employer,
- when on a medical leave that exceeds six months, or
- if on a leave of absence that exceeds one year.

Participation in the Health Care Savings Plan (HCSP) is negotiated during bargaining sessions and specific contributions are dictated by the agreement. When an agreement is reached between the employer and employees, money is deducted from each covered employee's pay and deposited in the Savings Plan.

Contributions to the HCSP could come from various types of compensation including any of the following sources:

- Mandated employee contributions from wages
- Employer contributions
- Mandatory conversions in the form of:
  - » Severance pay
  - » Unused vacation or sick leave hours
  - » Accrued compensatory hours

PERA-eligible Salary

In some cases, contributions to the HCSP are considered salary for PERA purposes. The general rule is: if the compensation qualified as PERA-eligible salary before it had been designated for transfer to the HCSP, it retains that classification. Below are some examples.

- *Conversion of Accrued Compensatory Hours* – Routine payments of accrued or banked compensatory pay when attached to an earnings period are salary under PERA definitions. Therefore, an annual contribution to an employee's HCSP that represents pay for accrued compensatory hours must have PERA deductions withheld from it.
- *Mandated Employee Contributions from Wages* – A wage increase that is automatically contributed to the HCSP is considered salary for PERA purposes. For example,

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through negotiations, a 3.0% salary increase is established, but the bargaining agreement calls for an employee contribution to the HCSP in an amount equal to half of the increase, or 1.5%, as a payroll deduction. In this instance, the amount paid into HCSP is considered salary for PERA purposes because it was part of the negotiated pay increase.

Salary not eligible for PERA

In other cases, contributions to the HCSP are not eligible for PERA withholdings because they represent forms of compensation that do not meet the definition of salary in law. Among these are:

- *Employer Contributions* – This is a specific dollar amount that an employer puts into the health care savings accounts of employees or it can be an employer contribution calculated as a percentage of the employees' salary. In both instances, the amount paid into HCSP is not salary for PERA purposes because it is considered a type of fringe benefit {defined in Minnesota Statute 353.01, Subd. 10(b)(8)}
- *Conversion of Severance Pay or Accrued Leave Hours* – When an employer transfers all or a portion of an employee's severance pay to the HCSP, the amount is not salary for PERA purposes. (Minnesota Statute 353.01, Subd. 10(b)(2)}

  The same would be true for employers that transfer the value of an employee's unused vacation or sick leave hours on an annual basis to the HCSP — it is not PERA-eligible salary.

If you have questions regarding salary eligibility in regards to the Minnesota Health Care Savings Plan; or should you find that you have been incorrectly reporting salary on one or more employees that participate in it — by either overstating or understating the compensation — please contact PERA at 1 (888) 892-7372 or (651) 296-3636, option '3'.