



The Escalator



The Official Monthly Publication of the
MINNEAPOLIS POLICE RELIEF ASSOCIATION

May 2003

Report from the Legislative Committee Chair: Richard Nelson

Minnesota Medical Savings Account Empowerment Act 2003

From April 27th to the 29th our lobbyist Bob Johnson and I went to Washington, D.C. to lobby the Medical Savings Account (M.S.A.) S.F. 729 and H.R. 1670 that were recently introduced to the U.S. 108th Congress 1st Session.

The Minnesota Congress and their staff received us well and they were very supportive of our efforts toward the passage of the new version of the M.S.A for Minnesota public employees, both active and retired. This Minnesota M.S.A. Empowerment Act of 2003 would become effective for the 2004 tax year if it is passed in 2003.

The following three major changes that were made in the current M.S.A. are as follows:

1. The \$10,000 per year allowable deduction in the old legislation has been removed and you can now deduct any amount voluntarily.
2. There was a clause in the old legislation that required you to be 45 years old before you could start contributing to your M.S.A. The age requirement has been removed in the new M.S.A. because of a possible discrimination dispute for active employees.
3. The old M.S.A. legislation had the Minnesota Credit Unions as the only administrator of the accounts for paying bills. The new M.S.A. legislation added other qualified financial institutions that could also be administrators along with Minnesota Credit Unions.

Since our last trip in September 2002 to Washington D.C. to promote



From Left to Right, Will Jrykas, Congressman John Kline, Todd Pufahl, Congressman Gil Gutknecht, Dick Nelson

the M.S.A., we have received some positive feedback as well as some serious questions on this new legislation from the Congress persons and their staff. We have also seen the development of strong support and greater acceptance of the M.S.A. concept from the President, Senate and House chairpersons. This support is reflected in the Minnesota delegation's efforts to make forward progress towards trying to resolve the Health Care Crisis in this Country.

As we were leaving D.C., we were informed to be prepared in case we need to testify on short notice (5 minutes each speaker) before the House hearings committee, prior to congress adjourning this summer.

WIDOWS CORNER: Barbara Schafer-Bernhard

What a nice pension check that we all received in May. I hope you all enjoyed it as much as I did. A big thanks to our Pension Board for the 3% increase.

The American Legion Post #1 really out did themselves this year at their annual dinner, a big thank you to them. If you did not go, you missed out on a good meal and great conversation with widows, retirees and the Post members who made us feel very welcome.

One of our retirees, Vivian Wenberg, recently passed away on May 3rd. I met Vivian when she asked me for a ride to the July picnic. I had the opportunity to have several conversations with her and I never heard a complaint. She was a beautiful person with a beautiful smile who appreciated everything that was done for her. Our sympathy goes out to her family. She will be missed. A memorial service will be held for Vivian on May 18th at Olivet Church, 3620-43rd Avenue North in Robbinsdale at 10:15 a.m.

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RESOLUTION
OF
[NAME OF ORGANIZATION]

WHEREAS, the cost of health care and health insurance continues to rise at an alarming rate; and

WHEREAS, people who have reached the age of retirement are more likely to incur medical expenses than younger people; and

WHEREAS, the rising cost of health care and health insurance places an extreme financial burden on retirees living on a fixed income; and

WHEREAS, many public employers are establishing plans that will allow for tax-free contributions to be used for the employee's health care costs in retirement; and

WHEREAS, such plans and the associated tax advantages are presently available only to people who are still working and are not available to people have already retired;

NOW, THEREFORE, BE IT RESOLVED AS FOLLOWS:

RESOLVED, that the [NAME OF ORGANIZATION] supports the adoption of H.R. 1670, Senate File 729 legislation that would enable the creation of a plan under which retirees could contribute money to be used for qualified health care expenses and to allow retirees to enjoy the same tax advantages available to active employees with regard to such plans.

FURTHER RESOLVED, that the [NAME OF ORGANIZATION] urges the Congress of the United States to pass legislation enabling the creation of a pilot program for current and former Minnesota public employees to establish medical savings accounts ("MSAs") into which a retired public employee or a public employee could make a tax-deductible contribution monthly/annually each year and for which any earnings on the assets of the MSA and payments or distributions from the MSA which are used to pay qualified medical expenses do not constitute taxable income.

CERTIFICATION OF ADOPTION

The undersigned officer of the [NAME OF ORGANIZATION] hereby certifies that the foregoing resolutions were adopted by the Board of Directors of the [NAME OF ORGANIZATION] at a meeting of the Board on the ___ day of _____, 2003.

Name, Title

Retiree Medical Savings Account Pilot Program

The attached draft legislation authorizes a pilot program for Minnesota public employees to establish medical savings accounts ("MSAs"). Under this pilot program, contributions by a retired public employee or a public employee 45 year of age or older to an MSA would be deductible up to \$10,000 annually. Any earnings on the assets of the MSA would not be taxable, nor would payments or distributions from the MSA which are used to pay qualified medical expenses.

This pilot program is roughly modeled after "Archer MSAs" which are currently authorized by the Internal Revenue Code on a limited basis. See, I.R.C. §220 (2000). By modeling it as closely as possible to medical savings accounts currently authorized by the Code, we allowed retirees to utilize a funding mechanism that both Congress and the Internal Revenue Service are familiar with. To be eligible, an individual must either be a retired employee of a Minnesota political subdivision or be at least 45 years of age and employed by a Minnesota political subdivision. See, Draft Legislation, Section XXX(H)(2). Allowing the latter group to qualify allows employees to start accumulating assets to prefund qualified medical expenses prior to retirement. As noted in the 2000 report of the Minnesota Postretirement and Active Employee Health Task Force, the ability to prefund retiree medical benefits reduces a significant obstacle to adequate retiree health care.

Like the Archer MSA, the draft legislation requires the creation of a trust or custodial account to be used exclusively to pay certain qualified medical expenses. The trust must be governed by a written instrument meeting the following requirements:

1. Contributions will only be accepted if they are in cash;
2. Contributions will be accepted from the eligible individual, the eligible individual's employer, or a qualified plan (as defined in section 401(a)) in which the eligible individual participates;
3. The trustee is a federally chartered credit union with multiple service locations throughout the Minneapolis/St. Paul metropolitan area that serves a substantial number of eligible individuals;
4. No part of the trust assets shall be invested in life insurance contracts;
5. The assets of the trust will not be commingled with other property except in a common trust fund or common investment fund; and
6. The interest of an individual in the balance in his account is nonforfeitable.

Eligible individuals could make a tax-free contribution in 2002 of up to \$10,000. See, Draft Legislation, Section XXX(D). This amount is indexed to inflation so that the overall limitation increases in future years.

Any amount paid or distributed out of the Public Employee Retiree MSA for qualified medical expenses is not taxable as long as the individual is retired from the political subdivision where he or she worked and receives retirement benefits from the defined benefit retirement plan in which the account holder participates. The latter requirement insures that a participant who is prefunding their retirement benefits at age 45 will not actually use the money for medical expenses until their retirement. See, Draft Legislation Section XXX(H)(4) and Section XXX(C). Qualified medical expenses are the same ones authorized by the Archer MSA and include generally those amounts paid for the diagnosis, cure, mitigation, treatment or prevention of disease, for treating any structure or function of the body, or for the transportation primarily for and essential to such medical care. Such amounts further include doctor's fees, prescriptions, and necessary hospital services. They also include insurance premiums (including supplemental insurance for the aged) and nursing care when such care is a function of medical necessity. See, Treas. Reg. §11.213-1.¹ Qualified medical expenses include amounts paid for the medical care of the public employee, the spouse of the employee and the qualified dependents of the employee.

In the event the account holder of the Public Employee Retiree MSA dies, the account holder's surviving spouse shall be treated as if he or she were the account holder, allowing him or her to continue using the account to pay for their qualified medical expenses.

SEC. XXX PILOT PROGRAM—PUBLIC EMPLOYEE RETIREE MEDICAL SAVINGS ACCOUNTS (MSAs)

- A. DEDUCTION ALLOWED – An eligible individual, shall be allowed a deduction for the taxable year in an amount equal to the amount paid in cash during such taxable year by such individual to a Public Employee Retiree MSA of such individual.
- B. TAX TREATMENT OF ACCOUNT – A Public Employee Retiree MSA is exempt from taxation under this section. Notwithstanding the preceding sentence, any such account is subject to taxes imposed by section 511 (relating to imposition of tax on unrelated business income of charitable, etc. organizations).
- C. TAX TREATMENT OF DISTRIBUTIONS - Any amount paid or distributed out of a Public Employee Retiree MSA which is used exclusively to pay qualified medical expenses shall not be includible in gross income of the account holder as long as the account holder has retired from the political subdivision and is receiving benefits from the defined benefit plan in which the account holder participates pursuant to that employment. Any amount paid or distributed out of a Public Employee Retiree MSA which is not used exclusively to pay the qualified medical expenses of the eligible individual shall be included in the gross income of the account holder.
- D. LIMITATION – The amount allowable as a deduction under subsection (A) to an eligible individual shall not exceed \$10,000 annually.
- E. COORDINATION WITH MEDICAL EXPENSE DEDUCTION – For purposes of determining the amount of the deduction under section 213, any payment or distribution out of a Public Employee Retiree MSA for qualified medical expenses shall not be treated as an expense paid for medical care.
- F. TREATMENT AFTER DEATH OF ACCOUNT HOLDER – If the account holder's surviving spouse acquires such holder's interest in a Public Employee Retiree's MSA by reason of being the designated beneficiary of such account at the death of the account holder, such Public Employee Retiree MSA shall be treated as if the spouse were the account holder.

The interest of an individual in the balance in his account is nonforfeitable.

- 4. QUALIFIED MEDICAL EXPENSE – The term "Qualified Medical Expense" means, with respect to the eligible individual, amounts paid by such individual for medical care (as defined in section 213(d)) for such individual, the spouse of such individual, and any dependent (as defined in section 152) of such individual, but only to the extent such amounts are not compensated for by insurance or otherwise.

G. **COST OF LIVING ADJUSTMENTS** - In the case of any calendar year beginning in a calendar year after 2002, each dollar amount in section (d) shall be increased by:

1. Such dollar amount, multiplied by
2. the cost-of-living adjustment determined under Section 1(0)(3) for the calendar year in which such taxable year begins by substituting "calendar year 2001" for "calendar year 1992" in subparagraph (B) thereof.

If any increase under the preceding sentence is not a multiple of \$ 50, such increase shall be rounded to the nearest multiple of \$50.

H **DEFINITIONS** - For purposes of this section -

1. **ACCOUNT HOLDER** - The term "account holder" means the individual on whose behalf the Public Employee Retiree MSA was established.
2. **ELIGIBLE INDIVIDUAL** - The term "eligible individual" shall mean, with respect to any taxable year, an individual who is
 - i. Retired from a political subdivision of the state of Minnesota; or,
 - ii. Is at least 45 years of age and an employee of a political subdivision of the state of Minnesota.
3. **PUBLIC EMPLOYEE RETIREE MSA** - The term "Public Employee Retiree MSA" means a trust created or organized as a medical savings account exclusively for paying the qualified medical expenses of the eligible individual, but only if the written governing instrument creating the trust meets the following requirements:
 - A. Contributions will only be accepted if they are in cash;
 - B. Contributions will be accepted from the eligible individual, the eligible individual's employer, or a qualified plan (as defined in section 401(a)) in which the eligible individual participates;
 - C. The trustee is a federally chartered credit union with multiple service locations throughout the Minneapolis - St. Paul metropolitan area that serves a substantial number of eligible individuals;
 - D. No part of the trust assets shall be invested in life insurance contracts;
 - E. The assets of the trust will not be commingled with other property except in a common trust fund or common investment fund; and

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Minnesota MSA Empowerment Act of 2003 (Introduced in Senate)

S 729 IS

108th CONGRESS

1st Session

S. 729

To amend the Internal Revenue Code of 1986 to establish a pilot program to encourage the use of medical savings accounts by public employees of the State of Minnesota and political jurisdictions thereof.

IN THE SENATE OF THE UNITED STATES

March 27, 2003

Mr. COLEMAN (for himself and Mr. CHAMBLISS) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1986 to establish a pilot program to encourage the use of medical savings accounts by public employees of the State of Minnesota and political jurisdictions thereof.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the 'Minnesota MSA Empowerment Act of 2003'.

SEC. 2. DEDUCTION FOR MINNESOTA PUBLIC EMPLOYEE MSA PILOT PROGRAM.

(a) IN GENERAL- Part VII of subchapter B of chapter 1 of the Internal Revenue Code of 1986 (relating to additional itemized deductions) is amended by redesignating section 223 as section 224 and by inserting after section 222 the following new section:

SEC. 223. MINNESOTA PUBLIC EMPLOYEE MSAS.

(a) IN GENERAL- In the case of an eligible individual, there shall be allowed as a deduction an amount equal to the amount contributed during the taxable year by such individual to the Minnesota public employee MSA of such individual.

(b) ELIGIBLE INDIVIDUAL- For purposes of this section, the term 'eligible individual' means an individual who--

(1) is in receipt of retirement benefits for the taxable year from a retirement plan associated with the State of Minnesota or a political subdivision thereof, or

(2) is an employee of the State of Minnesota or a political subdivision thereof.

(c) MINNESOTA PUBLIC EMPLOYEE MSA-

(1) IN GENERAL- The term 'Minnesota public employee MSA' means an Archer MSA which is created or organized exclusively for the purpose of paying the qualified medical expenses of the eligible individual and--

(A) which is designated as a Minnesota public employee MSA, and

(B) with respect to which no contribution may be made other than a contribution made by the eligible individual or the employer of the eligible individual.

(2) ARCHER MSA; QUALIFIED MEDICAL EXPENSES- For purposes of this section, the terms 'Archer MSA' and 'qualified medical expenses' shall have the respective meanings given to such terms by section 220(d).

(d) SPECIAL RULES- In applying section 220 to a Minnesota public employee MSA--

(1) subsection (d)(1)(A)(ii) shall not apply, and

(2) subsection (f)(3) shall be treated as including a reference to this section.

(e) REPORTS- In the case of a Minnesota public employee MSA, the report under section 220 (h)--

(1) shall include the fair market value of the assets in such Minnesota public employee MSA as of the close of each calendar year, and

(2) shall be furnished to the account holder--

(A) not later than January 31 of the calendar year following the calendar year to which such reports relate, and

(B) in such manner as the Secretary prescribes.

(f) COORDINATION WITH LIMITATION ON NUMBER OF TAXPAYERS HAVING ARCHER MSAS- Subsection (i) of section 220 shall not apply to an individual with respect to a Minnesota public employee MSA, and Minnesota public employee MSAs shall not be taken into account in determining whether the numerical limitations under section 220(j) are exceeded.

(b) DEDUCTION ALLOWED WHETHER OR NOT TAXPAYER ITEMIZES- Subsection (a) of section 62 is amended by inserting after paragraph (18) the following new item:

(19) MINNESOTA PUBLIC EMPLOYEE MSAS- The deduction allowed by section 223.

(c) TAX ON EXCESS CONTRIBUTIONS- Section 4973(d)(1) of such Code (relating to excess contributions to Archer MSAs) is amended by inserting 'or 223' after '220'.

(d) CLERICAL AMENDMENT- The table of sections for part VII of subchapter B of chapter 1 of such Code is amended by striking the last item and inserting the following new items:

Sec. 223. Minnesota public employee MSAs.

Sec. 224. Cross reference.

(e) EFFECTIVE DATE- The amendments made by this section shall apply to taxable years beginning after December 31, 2003.

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108TH CONGRESS
1ST SESSION

H. R. 1670

To amend the Internal Revenue Code of 1986 to establish a pilot program to encourage the use of medical savings accounts by public employees of the State of Minnesota and political jurisdictions thereof.

IN THE HOUSE OF REPRESENTATIVES

APRIL 8, 2003

Mr. GUTKNECHT (for himself, Mr. SABO, Mr. PETERSON of Minnesota, Mr. RAMSTAD, Mr. KENNEDY of Minnesota, Ms. MCCOLLUM, and Mr. KLINE) introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to establish a pilot program to encourage the use of medical savings accounts by public employees of the State of Minnesota and political jurisdictions thereof.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 SECTION 1. SHORT TITLE.

4 This Act may be cited as the "Minnesota MSA Em-
5 powerment Act of 2003".

1 SEC. 2. DEDUCTION FOR MINNESOTA PUBLIC EMPLOYEE
2 MSA PILOT PROGRAM.

3 (a) IN GENERAL.—Part VII of subchapter B of chap-
4 ter 1 of the Internal Revenue Code of 1986 (relating to
5 additional itemized deductions) is amended by redesignig-
6 nating section 223 as section 224 and by inserting after
7 section 222 the following new section:

8 "SEC. 223. MINNESOTA PUBLIC EMPLOYEE MSAS.

9 "(a) IN GENERAL.—In the case of an eligible indi-
10 vidual, there shall be allowed as a deduction an amount
11 equal to the amount contributed during the taxable year
12 by such individual to the Minnesota public employee MSA
13 of such individual.

14 "(b) ELIGIBLE INDIVIDUAL.—For purposes of this
15 section, the term 'eligible individual' means an individual
16 who—

17 "(1) is in receipt of retirement benefits for the
18 taxable year from a retirement plan associated with
19 the State of Minnesota or a political subdivision
20 thereof, or

21 "(2) is an employee of the State of Minnesota
22 or a political subdivision thereof.

23 "(c) MINNESOTA PUBLIC EMPLOYEE MSA.—

24 "(1) IN GENERAL.—The term 'Minnesota public
25 employee MSA' means an Archer MSA which is cre-
26 ated or organized exclusively for the purpose of pay-

1 ing the qualified medical expenses of the eligible in-
2 dividual and—

3 “(A) which is designated as a Minnesota
4 public employee MSA, and

5 “(B) with respect to which no contribution
6 may be made other than a contribution made
7 by the eligible individual or the employer of the
8 eligible individual.

9 “(2) ARCHER MSA; QUALIFIED MEDICAL EX-
10 PENSES.—For purposes of this section, the terms
11 ‘Archer MSA’ and ‘qualified medical expenses’ shall
12 have the respective meanings given to such terms by
13 section 220(d).

14 “(d) SPECIAL RULES.—In applying section 220 to a
15 Minnesota public employee MSA—

16 “(1) subsection (d)(1)(A)(ii) shall not apply,
17 and

18 “(2) subsection (f)(3) shall be treated as includ-
19 ing a reference to this section.

20 “(e) REPORTS.—In the case of a Minnesota public
21 employee MSA, the report under section 220(h)—

22 “(1) shall include the fair market value of the
23 assets in such Minnesota public employee MSA as of
24 the close of each calendar year, and

25 “(2) shall be furnished to the account holder—

1 “(A) not later than January 31 of the cal-
2 endar year following the calendar year to which
3 such reports relate, and

4 “(B) in such manner as the Secretary pre-
5 scribes.

6 “(f) COORDINATION WITH LIMITATION ON NUMBER
7 OF TAXPAYERS HAVING ARCHER MSAS.—Subsection (i)
8 of section 220 shall not apply to an individual with respect
9 to a Minnesota public employee MSA, and Minnesota pub-
10 lic employee MSAs shall not be taken into account in de-
11 termining whether the numerical limitations under section
12 220(j) are exceeded.”

13 (b) DEDUCTION ALLOWED WHETHER OR NOT TAX-
14 PAYER ITEMIZES.—Subsection (a) of section 62 is amend-
15 ed by inserting after paragraph (18) the following new
16 item:

17 “(19) MINNESOTA PUBLIC EMPLOYEE MSAS.—
18 The deduction allowed by section 223.”

19 (c) TAX ON EXCESS CONTRIBUTIONS.—Section
20 4973(d)(1) of such Code (relating to excess contributions
21 to Archer MSAs) is amended by inserting “or 223” after
22 “220”.

23 (d) CLERICAL AMENDMENT.—The table of sections
24 for part VII of subchapter B of chapter 1 of such Code

1 is amended by striking the last item and inserting the fol-
2 lowing new items:

“Sec. 223. Minnesota public employee MSAs.
“Sec. 224. Cross reference.”

3 (e) EFFECTIVE DATE.—The amendments made by
4 this section shall apply to taxable years beginning after
5 December 31, 2003.

○