

DISCLOSURE STATEMENT

REQUIREMENTS OF AN HSA

A. **CASH CONTRIBUTIONS** – Your contribution must be in cash, unless it is a rollover contribution.

B. **MAXIMUM CONTRIBUTION** – The total amount that may be contributed to your HSA for any taxable year is the sum of the limits determined separately for each month. The determination for each month is based on whether, as of the first day of such month, you are eligible to contribute and whether you have individual or family coverage under a high deductible health plan (HDHP). If you have individual coverage, the maximum monthly contribution is 1/12 of \$2,850 (for 2007). If you have family coverage, the maximum monthly contribution is 1/12 of \$5,650 (for 2007). The 2007 limits of \$2,850 and \$5,650 are subject to cost-of-living increases. In addition, if you have attained age 55 before the close of the taxable year, the contribution limit is increased by an additional amount not to exceed \$800 for 2007, \$900 for 2008, and \$1,000 for 2009 and thereafter. The annual limit is decreased by aggregate contributions to an Archer MSA and by any qualified HSA funding distributions deposited from an IRA.

Beginning in 2007, if you become HSA-eligible after the beginning of the year, you may make a full year's contribution up to the statutory contribution limit as long as you maintain eligibility during the testing period. The testing period begins the last month of the initial eligibility year and ends at the end of the 12-month period following that month. If you do not remain eligible for the testing period, you must include the contributions made for the months that you were not otherwise eligible in your gross income and pay a 10 percent penalty on the amount.

C. **CONTRIBUTION ELIGIBILITY** – You are an eligible individual for any month if you: (1) are covered under an HDHP on the first day of such month; (2) are not also covered by any other health plan that is not an HDHP and that provides coverage for any benefit covered under the HDHP (with limited exceptions); (3) are not enrolled in Medicare; and (4) are not eligible to be claimed as a dependent on another person's tax return.

In general, an HDHP is a health plan that satisfies certain requirements with respect to deductibles and out-of-pocket expenses. Specifically, an HDHP has an annual deductible of at least \$1,100 (2007) for single coverage and at least \$2,200 (2007) for family coverage. In addition, the sum of the annual out-of-pocket expenses required to be paid (deductibles, copayments and amounts other than premiums) cannot exceed \$5,500 (2007) for single coverage and \$11,000 (2007) for family coverage. All of these dollar amounts may be adjusted annually for cost-of-living increases.

D. **NONFORFEITABILITY** – Your interest in your HSA is nonforfeitable.

E. **ELIGIBLE CUSTODIANS** – The Custodian of your HSA must be a bank, savings and loan association, credit union, or a person approved by the Secretary of the Treasury.

F. **COMMINGLING ASSETS** – The assets of your HSA cannot be commingled with other property except in a common trust fund or common investment fund.

G. **LIFE INSURANCE** – No portion of your HSA may be invested in life insurance contracts.

INCOME TAX CONSEQUENCES OF ESTABLISHING AN HSA

A. **HSA DEDUCTIBILITY** – If you are eligible to contribute to an HSA for any month during the taxable year, amounts contributed to your HSA are deductible in determining adjusted gross income up to the maximum contribution limits discussed above. The deduction is allowed regardless of whether you itemize deductions. Employer contributions to your HSA are excludable from your gross income and you cannot deduct such amounts on your tax return as HSA contributions.

B. **TAX-DEFERRED EARNINGS** – The investment earnings of your HSA are not subject to federal income tax until distributions are made (or, in certain instances, when distributions are deemed to be made).

C. **TAXATION OF DISTRIBUTIONS** – The taxation of HSA distributions depends on whether the distribution is for a qualified medical expense. Distributions paid due to qualified medical expenses are excluded from your gross income. Qualified medical expenses are amounts you pay for medical care (as defined in Internal Revenue Code (IRC) section 213(d)) for yourself, your spouse and your dependents (as defined in IRC section 152), but only to the extent that such amounts are not covered by insurance or otherwise. Distributions made for purposes other than qualified medical expenses are included in your gross income.

D. **ROLLOVERS** – Your HSA may be rolled over to an HSA of yours, or may receive rollover contributions, provided that all of the applicable rollover rules are followed. Rollover is a term used to describe a tax-free movement of cash or other property between any of your HSAs. The rollover rules are generally summarized below. These transactions are often complex. If you have any questions regarding a rollover, please see a competent tax advisor.

1. **HSA or Archer MSA to HSA Rollovers** – Funds distributed from your HSA may be rolled over to an HSA of yours if the requirements of IRC section 223(f)(5) are met. A proper HSA to HSA rollover is completed if all or part of the distribution is rolled over not later than 60 days after the distribution is

received. You may make only one rollover contribution to an HSA during a 12-month period.

Funds distributed from your Archer MSA may be rolled over to your HSA. A proper MSA to HSA rollover is completed if all or part of the distribution is rolled over not later than 60 days after the distribution is received.

2. **Health FSA or HRA to HSA Rollovers** – If allowed under your health flexible spending arrangement (FSA) or health reimbursement arrangement (HRA), you may roll over the lesser of the balance in the health FSA or HRA on (1) September 21, 2006, or (2) the date of the distribution, directly to your HSA. If you do not remain HSA-eligible (for reasons other than death or disability) for 12 months following the month of the rollover, the amount rolled over is subject to taxation and a 10-percent penalty. Direct rollovers from health FSAs or HRAs may only be made through December 31, 2011.

3. **Written Election** – At the time you make a proper rollover to an HSA, you must designate to the Custodian, in writing, your election to treat that contribution as a rollover. Once made, the rollover election is irrevocable.

E. **QUALIFIED HSA FUNDING DISTRIBUTIONS** – If you are eligible to contribute to an HSA, you may be eligible to take a one-time, tax-free HSA funding distribution from your IRA and directly deposit it to your HSA. The amount of the qualified HSA funding distribution may not exceed the maximum HSA contribution limit in effect for the type of high deductible health plan coverage (i.e., single or family coverage) that you have at the time of the deposit, and counts toward your HSA contribution limit for that year. If you do not remain HSA-eligible (for reasons other than death or disability) for 12 months following the transaction, the amount of the transaction is subject to taxation and a 10-percent penalty. For further detailed information, you may wish to obtain IRS Publication 969, Health Savings Accounts and Other Tax-Favored Health Plans.

F. **CARRYBACK CONTRIBUTIONS** – A contribution is deemed to have been made on the last day of the preceding taxable year if you make a contribution by the deadline for filing your income tax return (not including extensions), and you designate that contribution as a contribution for the preceding taxable year. For example, if you are a calendar year taxpayer and you make your HSA contribution on or before April 15, your contribution is considered to have been made for the previous tax year if you designated it as such.

G. **BENEFICIARY ISSUES** – If you die and your beneficiary is your spouse, your HSA (or the relevant portion thereof) shall become your spouse's HSA as of the date of your death.

If the beneficiary is not your spouse, the HSA (or the relevant portion thereof) will cease to be an HSA as of the date of death.

If the beneficiary is the Account Owner's estate, the fair market value of the account as of the date of death is taxable on the Account Owner's final return. For other beneficiaries, the fair market value of the account is taxable to that person in the tax year that includes such date.

LIMITATIONS AND RESTRICTIONS

A. **DEDUCTION OF ROLLOVERS AND TRANSFERS** – A deduction is not allowed for rollover or transfer contributions.

B. **PROHIBITED TRANSACTIONS** – If you or your beneficiary engage in a prohibited transaction with your HSA, as described in IRC section 4975, your HSA will lose its tax-exempt status and you must include the value of your account in your gross income for that taxable year.

C. **PLEDGING** – If you pledge any portion of your HSA as collateral for a loan, the amount so pledged will be treated as a distribution and will be included in your gross income for that year.

FEDERAL TAX PENALTIES

A. **10 PERCENT PENALTY** – If you receive a distribution that is included in your gross income, you are subject to an additional tax of 10 percent. This additional 10 percent tax will apply unless a distribution is made on account of: (1) attainment of age 65 (or, if different, the age specified under section 1811 of the Social Security Act), (2) death, or (3) disability.

B. **EXCESS CONTRIBUTION PENALTY** – An excise tax of six percent is imposed upon any excess contribution you make to your HSA. This additional tax will apply each year in which an excess remains in your HSA. An excess contribution is any amount that is contributed to your HSA that exceeds the amount that you are eligible to contribute, excluding rollover and direct transfer amounts.

OTHER

A. **IMPORTANT INFORMATION ABOUT PROCEDURES FOR OPENING A NEW ACCOUNT** – To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial organizations to obtain, verify, and record information that identifies each person who opens an account. What this means for you: When you open an account, you are required to provide your name, residential address, date of birth, and identification number. We may require other information that will allow us to identify you.