

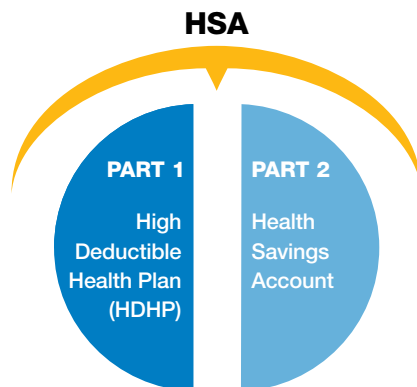
What is an HSA?

Health Savings Accounts (HSAs) are tax-advantaged savings accounts to which pre-tax or tax deductible funds can be contributed to pay for eligible medical expenses or for longer-term investment purposes. HSAs must be coupled with an HSA-compatible high deductible health plan (HDHP) in order to make contributions to the account.

The combination of an HSA and HDHP was created in order to provide you, the consumer, with more control over your healthcare spending and lower healthcare costs. HSAs and HDHPs provide several advantages for consumers and the market as a whole:

- ▶ Generally, lower monthly premiums than traditional plans.
- ▶ Opportunity for you to save and invest pre-tax or tax deductible dollars (similar to a 401k plan).
- ▶ Opportunity for you to pay for healthcare expenses with pre-tax or tax deductible dollars.
- ▶ Lower premiums mean lower fixed costs, providing you with greater control over where and how you spend your healthcare dollars.
- ▶ Greater incentive to shop carefully for healthcare services.

Most importantly, your HSA is owned by you. If your employment changes, the HSA goes with you. If you migrate to a health plan not compatible with HSAs, your money still remains with you. The money in your account rolls over every year and can be invested in a diverse set of funds. There is no “use it or lose it” requirement as you may have with other healthcare spending accounts.



PART 1

Intended to cover major medical expenses once the deductible is met. Includes coverage for preventive care.

PART 2

Used for:

- ▶ Medical expenses until deductible is met.
- ▶ Eligible expenses not covered by insurance (some elective procedures, OTC medications, etc.).
- ▶ Long-term investing.

Features of an HSA

It is your money, permanently: You own and control the funds in your account from day one, deciding when and how to spend them. There is no “use it or lose it” rule, meaning funds roll over from year to year. Additionally, the account and funds stay with you regardless of employer, employment, or health plan status.

Multiple funding options: Your account can be funded by anyone. You can fund using pre-tax salary deduction and/or tax-deductible contributions, and your employer may choose to make contributions. Family members or others can make contributions to your account as well.

Flexible use of funds: You may choose to use your funds to pay for eligible healthcare expenses on a tax-free basis now or invest the funds for future use. Funds can be used at any time, tax-free, for eligible medical expenses, or may be used for non-health expenses on a taxable basis (plus a penalty if under 65).

Your HSA may also be used to fund certain health coverage premiums, such as COBRA, long-term care, and coverage while receiving unemployment compensation.

Easy access to funds: You can access your funds conveniently with your ARCUS Financial Bank Visa® debit card, with checks, or using online bill pay through the ARCUS Financial Bank website. No claim forms are necessary.

Which plans are compatible with HSAs?

An HSA must be coupled with an HSA-compatible high-deductible health plan in order to make contributions to the account. The IRS determines the guidelines for compatible HDHPs. Current guidelines are:

IRS Requirements for 2009		
	Single Plan	Family Plan
Minimum deductible	\$1,150	\$2,300
Maximum out-of-pocket	\$5,800	\$11,600
Contribution limit	\$3,000	\$5,950
Catch-up contribution (55 or older)*	\$1,000	\$1,000

WellPoint's affiliated health plans provide a variety of excellent HSA-compatible HDHPs. To find eligible plans in your area, please speak with your broker.

What are the contribution guidelines for HSAs?

When coupled with a qualifying HDHP, your HSA has the following contribution guidelines:

- ▶ Contributions to your HSA can be made by anyone.
- ▶ Your contributions are tax deductible.
- ▶ If your employer contributes to your HSA, that contribution is done on a pre-tax basis.
- ▶ Any payroll deductions made through Section 125 for your HSA are also on a pre-tax basis.
- ▶ You may contribute the annual maximum amount as determined by the IRS, regardless of your plan's deductible. The maximum for 2009 is \$3,000 for individuals and \$5,950 for families.
- ▶ You may contribute the annual maximum amount determined by the IRS, regardless of when your coverage begins, if you maintain coverage for the 12 month period beyond the calendar year in which you first became eligible.
 - Example: if you have individual coverage that begins in November 2008, you may still contribute \$2,900 for 2008 when you maintain coverage through the end of 2009.
- ▶ Your employer may roll over funds from your HRA or FSA account once, according to the legislative provisions.

How can HSA funds be used?

You have multiple options for using HSA funds:

- ▶ Funds can be used tax-free at any time for eligible medical expenses.
- ▶ When your account balance exceeds the minimum investment threshold, funds may be invested in any of ARCUS Financial Bank's investment options.
- ▶ When you turn 65, you can use the funds for non-eligible medical expenses. The money is subject to income tax without any IRS penalties.
- ▶ If you are under age 65 and use your funds for non-eligible expenses, you will be subject to income tax and a 10% tax penalty.

What is the difference between HSAs and other health spending accounts?

	HSA	FSA	HRA
What does it stand for?	Health Savings Account	Flexible Spending Account	Health Reimbursement Account
Who do the funds belong to?	Employee	Employer	Employer
Who can contribute to the account?	Employer, employee, and others	Employee and employer	Employer
Do the funds rollover year-to-year?	Yes	No. Unused funds are forfeited to the employer	May roll over if your employer's plan permits.
Is the account portable between employers?	Yes	No	No
Can the money be invested and consumers earn interest?	Yes	No	No

What expenses are eligible for HSA reimbursement?

Section 213(d) of the Internal Revenue code provides information regarding the guidelines used to determine eligible expenses. You are encouraged to view the IRS website (Publication 502) for more information. ARCUS Financial Bank does not provide advice or guidance in determining if expenses are eligible under the IRS guidelines.

The following is a **partial** list of eligible medical expenses:

- ▶ Acupuncture
- ▶ Alcoholism treatment
- ▶ Ambulance
- ▶ Artificial teeth
- ▶ Bandages
- ▶ Breast reconstruction surgery
- ▶ Braille books and magazines
- ▶ Medically or health-related capital expenses / home improvements
- ▶ Chiropractor
- ▶ Christian science practitioner
- ▶ Contact lenses
- ▶ Crutches
- ▶ Dental treatment
- ▶ Diagnostic devices
- ▶ Disabled dependent care expenses
- ▶ Drug addiction treatment
- ▶ Drugs / medicines
- ▶ Eyeglasses
- ▶ Fertility enhancement
- ▶ Guide dog or other animal
- ▶ Hearing aids
- ▶ Home care
- ▶ Labor and delivery
- ▶ Laboratory fees
- ▶ Lead-based paint removal
- ▶ Learning disability / special education
- ▶ Long-term care
- ▶ Mentally challenged, special home for
- ▶ Nursing home
- ▶ Nursing services
- ▶ Optometrist
- ▶ Osteopath
- ▶ Oxygen
- ▶ Prosthesis
- ▶ Psychiatric care
- ▶ Psychoanalysis
- ▶ Psychologist
- ▶ Stop-smoking programs
- ▶ Transplants
- ▶ Vision correction surgery
- ▶ Weight-loss program
- ▶ Wheelchairs
- ▶ Wigs

Do I qualify for an HSA?

In addition to being enrolled in an HSA-compatible health plan, there are certain other criteria that are used to judge whether you are qualified for an HSA. You cannot open an HSA if you:

- ▶ Can be claimed as a dependent on anyone else's tax return.
- ▶ Are currently enrolled in Medicare (note that enrolling in Social Security automatically enrolls one in Medicare).
- ▶ Are enrolled in any non-qualifying health coverage that does not satisfy the statutory minimum deductible requirements of Internal Revenue Code Section 223 (unless that coverage is limited to certain permitted types of coverage or insurance).
- ▶ Have a Flexible Spending Account or a Health Reimbursement Arrangement with your employer, or if you are covered under your spouse's Flexible Spending Account or Health Reimbursement Arrangement, you may not be eligible to open a Health Savings Account. (Your employer's benefits administrator should be able to help answer whether your Flexible Spending Account or Health Reimbursement Arrangement will allow you to open a Health Savings Account.)

These conditions are subject to change. For more information, go to <http://www.treas.gov/offices/public-affairs/hsa/>.

Evaluating an HSA

Guidelines for when HSAs and HSA-compatible plans are beneficial

Health Savings Accounts and High Deductible Health Plans offer you an additional option beyond traditional health plans. The HSA/HDHP combination provides greater control over how you spend your healthcare dollars. Several key attributes differentiate HSAs/HDHPs from traditional health plan options:

- ▶ **Premium costs** – HSA-compatible HDHPs generally have lower premiums than traditional plans. The premium savings can be used to fund the HSA. As opposed to premiums, which are fixed and sunk costs however, funds in your HSA can be rolled-over for future use or invested for long-term savings.
- ▶ **Deductibles** – As their name suggests, HDHPs generally have higher deductibles than traditional plans. This means that you are responsible for a greater portion of your initial, and potentially only, healthcare costs each year. These initial costs, however, are offset by lower premiums and can be paid with pre-tax HSA funds, greatly reducing the burden.
- ▶ **Tax-free Dollars** – In addition to using pre-tax or tax deductible HSA funds to pay for your increased deductible, these funds can be used for a broad range of services that are not covered by either traditional plans or HDHPs. Certain elective procedures, over-the-counter medications, contact lens, and other products and services can now be funded with pre-tax dollars. This benefit is available through flexible spending accounts (FSAs) and health reimbursement accounts (HRAs), but with greater limitations and greater risk (due to “use it or lose it” provisions).
- ▶ **Savings and Investment** – HSA funds roll over each year, allowing you to save funds for future medical costs or retirement.

Only you can decide if an HSA/HDHP is right for you. Consider how the consumers in these three examples use their HSAs.

Judith has a family and needs money for health expenses now

Judith is 38 years old and has a high-deductible health plan for her family. Judith has 3 young children and has a chronic, minor health condition. She knows she will have a substantial amount of health expenses during the year, so she contributes \$200 per month to her HSA to help cover her expected expenses.

Jim is single and saves for the future

Jim is 32 years old and has average health expenses. He contributes \$175 per month to his HSA. He is a conservative investor and thus keeps his money in the FDIC-insured deposit account, allowing it to grow risk-free. Jim is making modest withdrawals from his account each year, leaving the remaining contributions and interest earnings in the account to grow for his future qualified health expenses.

Kevin invests for retirement

Kevin is a 45-year-old with a family plan who is beginning to think about retirement. Kevin contributes his annual maximum in 2009 (\$5,950), and plans to contribute that same amount each year. He chooses to invest his money (once his minimum balance requirement has been met) in mutual funds with an aggressive investment profile. He plans to keep most of his contributions within his HSA for a while, allowing him to minimize his risk and take advantage of compounding income.

	Judith	Jim	Kevin
HDHP annual deductible	\$2,400	\$1,400	\$2,600
Average annual qualified medical expenses	\$4,000	\$500	\$1,500
Annual HSA contribution	\$2,400	\$2,100	\$5,950
Qualified medical expenses paid by HDHP	\$1,280	\$0	\$0
Withdrawals made from HSA to cover out-of-pocket qualified medical expenses	\$2,400	\$500	\$0
Estimated tax savings on qualified medical expenses paid from hsa this year (assuming 28% tax bracket)	\$672	\$140	\$0
Estimated tax savings on qualified medical expenses paid from HSA for 25 years (assuming 28% tax bracket)	\$16,800	\$3,500	\$0
Total estimated tax savings on tax-deferred HSA contribution this year (assuming 28% tax bracket)	\$672	\$588	\$1,666
Total estimated tax savings on tax-deferred HSA contribution for 25 years (assuming 28% tax bracket)	\$16,800	\$14,700	\$41,650
HSA carry over each year	\$0	\$1,600	\$5,950
Potential long-term growth on annual HSA contributions	N/A	1 yr – \$1,632 ¹ 5 yrs –\$8,493 10 yrs – \$17,870 25 yrs - \$52,273	Depends upon mutual fund returns.

¹Assuming a 2% average annual rate-of-return

Judith's Benefits

In this scenario, by using her HSA to pay for her qualified health expenses, Judith will realize tax savings of almost \$700 next year and almost \$17 thousand over the next 25 years. Additionally, this amount does not include the savings Judith will realize from the lower premiums associated with her high deductible health plan.

Jim's Benefits

In this scenario, Jim contributes \$2,100 per year to his HSA, providing a tax savings of almost \$600 per year or almost \$15 thousand over the next 25 years. Additionally, his net savings, after qualified medical expenses, is \$1,600 per year. At this savings rate, based on his conservative investment style, Jim will have saved and earned almost \$8,500 in 5 years and over \$50 thousand in 25 years (based on a 2% average rate-of-return).

Kevin's Benefits

In this scenario, Kevin contributes almost \$6,000 per year to his HSA and does not withdraw any for medical expenses. This contribution will yield over \$1,600 per year in tax savings, or over \$40 thousand over 25 years. Kevin's savings will depend upon the return he realizes on his mutual fund investments.

ARCUS Financial Bank and its affiliates are not providing tax advice through this document and we cannot respond to specific tax questions. Tax issues are also very dependent on the specific facts. Clients are encouraged to seek their own tax advice.