



Health Savings Accounts

A tax-favored savings and investment
account for your current and future
health care needs

ALLIANCE
BENEFIT
GROUP™

Saving for now...

What is the difference between a High-Deductible Health Plan and an HSA?

In order to open or contribute to a Health Savings Account (HSA) you must be covered by a High-Deductible Health Plan (HDHP). The HDHP is the insurance plan that has a high deductible you must satisfy first before the plan reimburses you. However, preventive services, such as routine physicals, well-child checks, various screenings, etc., are often paid by the HDHP before the deductible is applied.

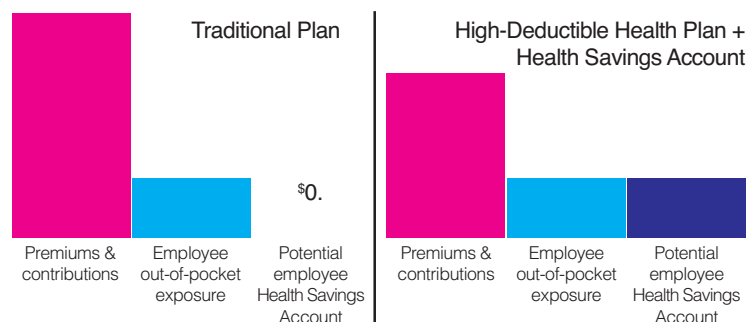
The HSA is a savings vehicle that allows you to pay for your deductible costs, as well as many other health care costs, without paying state income tax (except in AL, CA, NJ or WI), federal income tax, Social Security tax, and Medicare tax. The HSA can reimburse expenses that are eligible under the Internal Revenue Code Section 213(d). These expenses are not all credited toward the satisfaction of your health plan deductible. For example, Lasik surgery is typically not covered by your health plan but is reimbursable from a Health Savings Account.

An HSA may be funded by your or your employers contributions, or both. Contributions can easily be made by payroll deduction through your employer.

High-Deductible Health Plans (HDHP) combined with the tax advantages of Health Savings Accounts (HSA) are providing employers and employees with alternatives to the rising costs of health care.

- Reduce premiums and employee contributions
- Save and invest for future needs
- Employees who have incurred substantial out-of-pocket expenses in the past may benefit because all contributions to HSAs can be pre-taxed

Employee savings have the opportunity to grow year after year if medical expenses are not incurred or if disbursements are deferred. Disbursements are tax-free for medical expenses and can be taken at any time.



The plan on the right reduces premiums and contributions, maintains similar out-of-pocket exposure for the employee, and allows the employee to save for future health care expenses.

"A recent Fidelity Investments study reports that with no access to an employer-sponsored health care plan, a couple retiring in 2008 at age 65 needs \$225,000 in savings to fund out-of-pocket medical expenses in retirement."

Fidelity, March 2008

What is an HSA?

A Health Savings Account (HSA) is a tax-exempt spending account used in conjunction with a High-Deductible Health Plan. An HSA is similar to a 401(k), except the HSA is used to save money for qualified medical expenses. Your HSA may be used to pay for medical expenses as they occur, or the funds may remain in your account until you need them later in life.

investing for the future

What are the advantages of an HSA?

Contributions made to the HSA and qualified disbursements from the HSA are not subject to tax. Contributions to an HSA may be invested in a variety of funds providing excellent long-term growth potential. In addition, interest and investment earnings on HSA contributions are tax free.

Funds in an HSA roll over from year to year. There is no "use it or lose it" rule. For this reason, you do not have to rush to incur unnecessary medical expenses at year end to avoid losing your money.

HSA's are individually owned and portable. Unlike similar benefits, your HSA is not forfeited when you terminate or change employment. Upon death, HSA's become the property of a designated beneficiary. A spousal beneficiary receives it as an HSA; any other beneficiary as a taxable event.

Once you reach age 65 or if you become disabled, disbursements for non-health care expenses may be made without penalty but will be subject to income tax.

How does an HSA save taxes?

Example: An employee makes \$40,000 annually and decides to contribute to an HSA. Currently the employee spends \$3,000 a year on medical expenses. The HSA contribution is taken out of the employee's paycheck before taxes are calculated. The savings is \$750 per year (may vary by income tax bracket). Additionally, any unused money will stay in the account for future health care expenses.

	<i>Without HSA</i>	<i>With HSA</i>
Annual Wages	\$40,000	\$40,000
Expenses Paid by HSA	N/A	\$3,000
Taxable Wages	\$40,000	\$37,000
Expenses not paid by HSA	\$3,000	N/A
Take Home Pay	\$27,000	\$27,750
Savings from HSA	N/A	\$750

What are the requirements of an HSA?

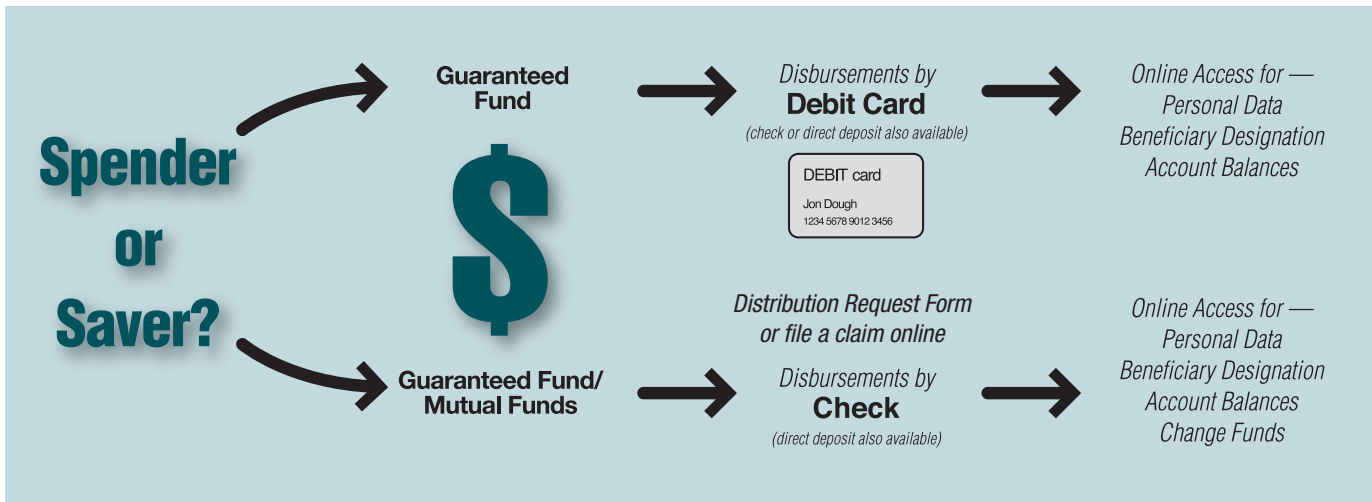
In order to be eligible for an HSA, you must have coverage under a qualifying High-Deductible Health Plan. This may be single or family coverage and must meet certain deductible and out-of-pocket requirements. In addition to the eligibility requirements, you cannot receive benefits under Medicare or be claimed as a dependent on any other person's tax return.

Additionally, the law prohibits you from being eligible for an HSA if you are covered by any other health plan that is not a High-Deductible Health Plan. However, this provision excludes specific accident, injury, disability, dental, vision and long-term care insurance, as well as limited purpose Flexible Spending Accounts (those which only pay for expenses such as vision, dental, and orthodontia).

How do I sign up for an HSA?

Once you have determined that you are eligible for an HSA, you must complete an HSA enrollment form. This form authorizes your employer to deduct your HSA contributions from your pay on a pre-tax basis. You will be permitted to change or stop the deduction at any time.

When completing the HSA enrollment form, you will be asked to specify whether you would like the **Spender** HSA design or the **Saver** HSA design. Your design choice will determine the features available for your HSA. You will be permitted to change from **Spender** to **Saver** or vice versa if you find the option you previously selected no longer meets your needs.



Spender or Saver... which am I?

There are two different types of HSA users: **Spenders** and **Savers**. At the time of enrollment in the Alliance Benefit Group HSA, you will be asked to declare yourself a **Spender** or a **Saver**.

So what is the difference?

A **Spender** is someone who will use their HSA to supplement their High-Deductible Health Plan. **Spenders** frequently access the funds of the HSA to help pay for out-of-pocket medical costs as they occur. **Spenders** find convenience in the debit card that is provided for use at the point-of-service or after the final bill is received from the provider.

A **Spender's** HSA funds must remain in the interest-bearing account, rather than being diversified into mutual funds.

A **Saver** is someone who chooses to reserve their HSA funds for expenses later in life, like post-retirement health care. **Savers** have the option to invest their HSA contributions in mutual funds. In addition to the interest-bearing account, there will be one money market and nine other high quality diversified mutual funds available for **Savers** to choose from. In essence, your HSA will have an investment menu like the traditional 401(k) account with the same types of features.

Savers will not be issued a debit card but can request a disbursement from their HSA at any time online, or by submitting a request form. Payment will be sent by check or direct deposit within two business days.

If I choose to be a Saver, how do I invest my HSA contributions?

Your contributions will be placed in an interest bearing account until you diversify them. You can do this by logging on to Alliance Benefit Group's website at www.myabg.com.

How much may be contributed to an HSA?

You may contribute up to the maximum allowed by law. The maximum contribution amounts based on High-Deductible Health Plan coverage are:

	2009	2010
Self Only (Single)	\$ 3,000	_____
Family	\$ 5,950	_____

This maximum contribution amount is indexed for inflation and will be adjusted annually.

If you begin High-Deductible Health Plan coverage mid-year, you may contribute the entire annual maximum contribution allowed; however, you must remain on the High-Deductible Health Plan for the following calendar year in order for the entire contribution to be excluded from taxation.

Example: Employee begins coverage on a High-Deductible Health Plan on May 1, 2008. The employee puts the entire annual maximum into his/her HSA. In order for the entire amount to be excluded from taxation, the employee must remain on the High-Deductible Health Plan through December 31, 2009. If the employee ceases to be covered by a High-Deductible Health Plan sometime in 2009, then one-third of the contribution (January through April) in 2008 is ineligible and would need to be withdrawn and taxed.

If you are 55 or older you are eligible to make additional “catch-up” contributions to your HSA. The catch-up amount will increase annually according to the following schedule:

Year	Catch-Up Amount
2008	\$900
2009 and after	\$1,000

How do I get money out of my HSA?

You can get money out of your HSA two ways – by requesting payment from your HSA or by using your debit card. You can request a payment from your HSA online, or by completing the Distribution Request Form. Whether using the debit card or manually requesting funds, remember that only the amount in your account is available. (This amount may fluctuate due to interest earnings, investment returns, or appropriate fees.)

If your debit card transaction is for an amount which is greater than the total amount of funds available in your HSA, the transaction will be denied. If a manual disbursement request exceeds the funds available, Alliance Benefit Group will pay you what is available immediately and make subsequent payments as more funds become available.

Use of the Benny™ Prepaid Visa® Card

The **Spender** HSA includes a Benny™ Prepaid Visa® Card, which makes your health savings easier to access. Benny is a prepaid Visa card that draws on your HSA available balance. Each time you incur



a qualified expense at a qualified provider that accepts Visa, simply present your Benny card for payment.

Benny can be used only at merchants that provide medical services or sell medical supplies. Benny is designed to work at places such as health care providers, pharmacies, chiropractors, dental and vision offices. Benny will not work at locations other than medical providers, such as gas stations or restaurants.

Here's how it works:

After enrollment, you will receive two Benny cards by mail at your home address. If you would like your spouse or dependent to use the second Benny card, they should sign the back of that card. You must activate Benny by following the instructions printed on the sticker on the front of the card. It is important to know the available balance in your HSA when using Benny. Transactions attempted for amounts greater than your available balance will be declined at point of sale.

You can also use Benny to pay hospital or clinic bills which have been applied to your health plan deductible. Make sure to wait until charges have been submitted to insurance before paying with Benny. This way you can verify the charges were applied to your deductible and any applicable discounts were applied before you pay.

The IRS requires that amounts disbursed from your HSA, including Benny purchases, be reported at the end of each tax year. It is important to retain all receipts and adequate records for expenses paid with HSA funds. This documentation would be requested in the event of an IRS audit. If HSA funds are used for non-healthcare expenses, income tax and excise tax will apply. For more information about HSAs and eligible expenses, consult Publications 502 and 969 at www.irs.gov.

An important note about pharmacy purchases:

Because Benny is a special health care-related card, some restrictions apply to its use for pharmacy purchases. In order for Benny to be accepted at a pharmacy, discount store or grocery store, the store must have a special system in place which verifies the item(s) being purchased are qualified health care items. This system is called an Inventory Information Approval System, or IIAS. If the store does not have an IIAS, Benny will not work there. If Benny does not work at your pharmacy you can request payment from your HSA online or by submitting a Distribution Request Form.





Saving for now...

When do I use my insurance card and when do I use my Benny™ Card?

You must be sure to present your insurance card to your healthcare provider and your pharmacy. This will ensure that your insurance information is up to date and claims are processed accurately.

With a High-Deductible Health Plan (HDHP), you are responsible for paying for many of your healthcare costs out-of-pocket since most services must be applied to your deductible. It's important your provider has your insurance information so your deductible is properly credited and any eligible discounts are applied before you are charged.

When you visit your healthcare provider, you should not pay for the services on the day you receive them. Instead, make sure your provider submits the charges to your HDHP. You will receive an Explanation of Benefits (EOB) from your HDHP which will explain any discounts, as well as how much you are responsible for paying. When you receive the bill from your healthcare provider, make sure the amount you owe matches the information on your EOB.

Once the charges have been processed by your HDHP you can use your HSA funds to pay your provider. You can do this by using Benny or by requesting a payment from your HSA. If using Benny to pay your bill, use it as you would a normal Visa® by submitting the card information on your bill or by calling it in to your provider. Remember, only amounts up to the available balance in your HSA will be approved.

You will be required to pay for your prescription medications before taking them from the pharmacy. As long as your pharmacy has your insurance information, the charges will be applied to your

deductible and any eligible discounts will be applied right away. You can use Benny at your pharmacy or request payment from your HSA for pharmacy purchases.

How do I access my HSA online?

You can access your account online by going to www.myabg.com. The first time you login your user name will be your Social Security number and your password will be the last four digits of your Social Security number. Immediately upon logging in you will be prompted to change both your user name and password.



Online you can check your account balance, request payment from your HSA, check prior claims (distributions), and perform other functions. Savers can move their money among the various investment options and access the Morningstar Research tools to learn about the investments.

How do I check my HSA balance online?

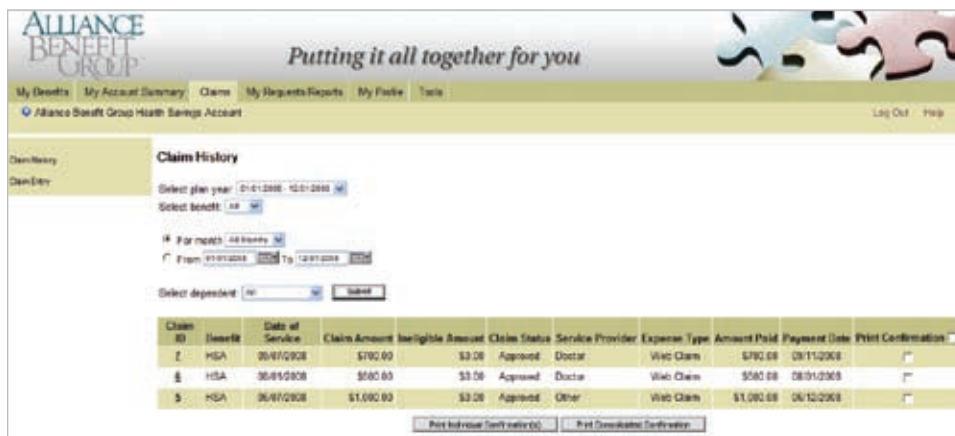
You can review your account online any time at www.myabg.com. Quarterly statements will also be posted online. If you provide Alliance Benefit Group with your email address you will receive an email with instructions for downloading your statement.

Your HSA covers a wide variety of medical expenses.

investing for the future

How do I request money from my HSA online?

Once you have logged in to your account go to the “Alliance Benefit Group Health Savings Account” section (not “HSA Investment Options”) and click the “Claims” tab at the top. On the left hand column select “Claim Entry.” Fill in the information requested and submit your claim. You will be prompted to input additional claims or to proceed and finalize your request. It is that simple.



Claim ID	Event ID	Date of Service	Claim Amount	Eligible Amount	Claim Status	Service Provider	Expense Type	Amount Paid	Payment Date	Print Confirmation
2	HSA	09/01/2008	\$700.00	\$3.08	Approved	Doctor	Web Claim	\$700.00	08/11/2008	<input type="checkbox"/>
4	HSA	08/01/2008	\$500.00	\$3.08	Approved	Doctor	Web Claim	\$500.00	08/01/2008	<input type="checkbox"/>
5	HSA	08/01/2008	\$1,000.00	\$3.08	Approved	Other	Web Claim	\$1,000.00	08/12/2008	<input type="checkbox"/>

How should I record-keep my claims information for my HSA?

It may be best to keep your claims information by tax year. In the year you take money (a distribution) from your Health Savings Account for an expense that you have incurred, attach those receipts to your taxes in the event of an IRS audit:

- Medical plan Explanation of Benefits (EOBs)
- Prescription drug receipts
- Over-the-counter receipts
- Itemized third-party statements

Additionally, it may be prudent to keep a copy of your High-Deductible Health Plan (HDHP) coverage because that is the first requirement to be able to open or contribute to a Health Savings Account.

If you wait for a number of years to take money out of your HSA, you may want to keep copies of your taxes in the year you incurred expenses to prove the ages of your dependents at the time they incurred the expense. Some receipts fade over time and need to be copied in order to maintain them.

Can I use my HSA if I take a deduction for health care expenses that exceed 7.5% of my adjusted gross income?

Internal Revenue Service publication 502 explains the tax deduction that is available for expenses that exceed 7.5% of a person or family’s adjusted gross income. Any expenses reimbursed from an HSA cannot also be counted toward expenses deducted for income tax purposes. A person who may anticipate expenses in excess of the 7.5% of adjusted gross income should not take money out of

their HSA for those same expenses. If they decide to not take a tax deduction they could then submit for reimbursement from their Health Savings Account.

For more information

Access more information at www.abghsa.com including:

- Links to HSA videos on YOUTUBE
- Log into www.myabg.com
- Additional forms available
- Links to other websites





What are my responsibilities?

As the account holder, you are responsible for ensuring that your contributions do not exceed the established maximum. You must maintain records of your receipts for eligible medical expenses. These will be requested in the event of an audit. You must file Form 8889 with your Federal income taxes. You will receive Form 1099-SA after December 31 showing all distributions from your HSA during the previous year. By May 31 you will receive Form 5498-SA showing total contributions as well as the fair market value of your HSA for the previous year. Both forms 1099-SA and 5498-SA have been filed with the IRS and these copies are for your records only.

What expenses can be paid by an HSA?

Your HSA covers a wide variety of medical expenses. These medical expenses must be necessary for the treatment or alleviation of a specific illness or injury. They may include hospital or clinic services, prescription drugs and medications, certain over-the-counter drugs, and many other health related expenses as defined by Section 213(d) of the Internal Revenue Code. Medical expenses covered under the HSA can include expenses that are not covered under the high deductible health plan and do not accumulate toward your deductible, such as chiropractic, dental, orthodontia or vision expenses. For more information about eligible expenses consult Publication 502 available at your local IRS office or from the IRS website: www.irs.gov.

Your HSA can also be used to pay premiums for COBRA, Medicare, long-term care insurance (federal limits apply), and health plan coverage you may have while receiving unemployment compensation.

Examples of qualified medical expenses:

Acupuncture	Dental Treatment	Laser Eye Surgery	Prescription Drugs
Alcoholism Treatment	Dentures	Learning Disability	Prosthesis
Ambulance	Diabetic Supplies	Medical Records Charge	Psychiatric Care
Artificial Limbs/Teeth	Diagnostic Services	Medical Services	Psychoanalysis
Aspirin	Drug Treatment	Medications/Drugs	Psychologist
Bandages	Drugs/Medicines	Nursing Services	Reading Glasses
Birth Control Pills	Egg Donor Fees	Obstetrical Expenses	Screening Tests
Blood Pressure Monitoring	Eye Exams/Glasses	Occlusal Guards	Sleep Deprivation Treatment
Devices	Fertility Treatment	Operations	Smoking Cessation Programs
Blood Sugar Test Kit	Flu Shots	Optometrist	Sterilization Procedures
Body Scan	Glucose Monitoring Devices	Organ Donors	Supplies for Medical Condition
Chelation (EDTA) Therapy	Guide Dog	Orthodontia	Surgery
Chiropractors	Hearing Aids	Osteopath	Therapy
Circumcision	Home Care	Over-the-Counter Drugs	Transplants
Copays/Deductibles	Hormone Replacement Therapy	Medicines	Vaccines
Condoms	Hospital Services	Ovulation Monitor	Vasectomy
Contact Lenses/Related Material	Immunizations	Oxygen	Vision Correction Procedures
Contraceptives	Inclinor	Physical Exams	Wheelchair
Counseling (excludes marriage)	Insulin	Physical Therapy	X-Ray Fees
Crutches	Laboratory Fees	Pregnancy Test	



Alliance Benefit Group (ABG) has been providing employee benefit services for over 30 years. With over 80,000 participant accounts, Alliance Benefit Group is a leader in delivering high-quality, high-touch, and high-tech services to its clients.

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