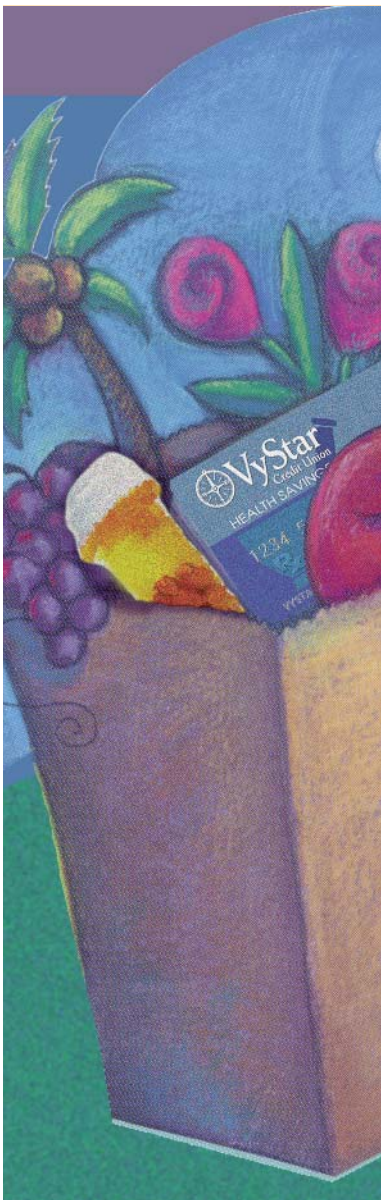




VYSTAR – HEALTH SAVINGS ACCOUNT

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Health Savings Accounts (HSAs) were created by Congress to combat rising medical costs - it is an account that allows you to save money for health care costs and use the funds to pay for qualified medical expenses for you and your family.

A VyStar HSA is a great way to save for your health care costs, while taking advantage of tax savings.

Members are eligible for a VyStar HSA *regardless of the state in which they reside*, or whether they are self-employed as long as they are:

- Covered under a High Deductible Health Plan (HDHP)
- Not covered under another type of health plan that is not an HDHP
- Not enrolled in Medicare (generally under 65 years old)
- Not claimed as a dependent on another individual's tax return

Why get an HSA?

You may save money in the short and long term by:

- Deducting 100% of your HSA contributions from your taxable income.
- Having the money in your HSA accrue interest on a tax-free basis.
- Paying no penalties or taxes when you use your HSA to pay for qualified medical expenses.
- Having a HDHP, which typically has lower premiums.

Tax Benefits:

- HSA contributions may be excluded from income.
- HSA earnings are tax-deferred.
- If used for qualified medical expenses, HSA assets are never taxed.
- Unused HSA assets may be used for retirement. These distributed amounts, however, will be subject to income taxes. They will also be subject to a 10% penalty until the HSA owner turns age 65.
- Upon death of the HSA owner, HSA assets become the property of a named beneficiary or of the HSA owner's estate. A spouse beneficiary may treat the HSA as his or her own, while non-spouse beneficiaries must treat such inherited assets as ordinary taxable income.

At VyStar we provide services that allow you convenient, easy access to your HSA to monitor and perform qualified transactions on your account. See "How do I use and monitor the funds in my HSA?" in this brochure.

Note: You must establish the HSA before you incur medical expenses otherwise the expenses may not qualify for tax deduction.

Who is eligible for an HSA?

You are an eligible individual if you:

- are covered under an HDHP on the first day of any given month,
- are not also covered by any other health plan that is not an HDHP (with limited exceptions),
- are not enrolled in Medicare, and
- are not eligible to be claimed as a dependent on another person's tax return

Note: An employer may offer HSAs through their insurance plan in conjunction with their HDHP. Employer contributions to an HSA reduce what an individual can contribute, but they do not eliminate an individual's ability to contribute.

What is an HDHP?

The reason you might choose a HDHP (High Deductible Health Plan) is that it can help to keep monthly premiums down. An HDHP is an insurance policy that meets certain dollar limits.

2010 Minimum Deductible Amounts for HSA-Compatible HDHPs:

- The minimum deductible for HDHP single coverage is \$1,200
- The minimum deductible for HDHP family coverage is \$2,400

2010 Amounts for Out-of-Pocket Spending on HSA-Compatible HDHPs:

- The maximum annual out-of-pocket amounts for HDHP single coverage is \$5,950
- The maximum annual out-of-pocket amount for HDHP family coverage is \$11,900

Note: An HDHP must meet the requirements set forth by the federal government in the Medicare Prescription Drug, Improvement and Modernization Act of 2003.

IMPORTANT: Timing of Eligibility

If your HDHP coverage begins on the first day of the month, you are eligible to open an HSA on any given day during the same month.

If your HDHP coverage begins on any day other than the first day of the month, you will not be eligible to contribute to an HSA until the first day of the following month.

Examples:

Rich began HDHP coverage on April 5, 2010, and continued coverage throughout 2010. Rich became an eligible individual on May 1, 2010.

Rich began HDHP coverage on April 1, 2010, and continued coverage throughout 2010. Rich became an eligible individual on April 1, 2010.

What is a testing period?

If you become eligible for an HSA account after January 1, you may make the maximum annual contribution (\$3,050 for single coverage or \$6,150 for family coverage).

To contribute the maximum amount, you must remain HSA-eligible throughout a 13-month "testing period."

The testing period is the first day of the last month of the initial eligibility year through the end of the 12-month calendar period following that month.

Example:

Rich began single coverage on June 1, 2010. He became eligible after January 1, 2010; therefore, he could contribute the maximum annual contribution as long as he remained eligible from June 1, 2010 through June 30, 2011.

If HSA eligibility is not maintained for the entire 13-month testing period, the HSA owner must prorate the contribution amount over the number of months they were eligible, must include the ineligible contributions as gross income, and may pay a 10% penalty on the ineligible amount.

VYSTAR – HEALTH SAVINGS ACCOUNT (CONTINUED)

How do I use and monitor the funds in my Health Savings Account (HSA)?

- A VyStar HSA provides you a Visa® Health Savings Debit Card with no transaction fees and no minimum opening balance required. Upon written request, a card can also be issued to a qualified family member.
 - Use your debit card to make qualified medical purchases at point-of-sale with merchants that accept Visa® debit.
- A VyStar HSA provides *free* Internet Banking service at www.vystarcu.org to monitor your account.
- A VyStar HSA provides *free* Magic*Touch voice response phone service at (904) 777-6001 or toll free 1-800-235-6289 to monitor your account.

Note: You do not need to get approval from VyStar Credit Union to use the funds in your account or submit receipts to us. You should, however, save your receipts just as you would for other items that are deducted from your taxes.

What are qualified medical expenses?

HSAs can be used to pay for many types of qualified medical expenses - even some that are often excluded on health insurance plans. These include:

- Doctor visits, prescriptions, transportation to get medical care, and certain dental and vision care
- Qualified long-term care insurance
- Health plan premiums when unemployed
- Health plan premiums during COBRA (continuation-of-benefit) coverage
- Certain health insurance after age 65

Note: For HSA assets to retain their tax-free status, they must be withdrawn and used for qualified medical expenses. Nonqualified uses of HSA assets are subject to taxation and a 10% penalty unless the HSA owner is age 65 or older, dies or is disabled at which time the 10% penalty does not apply.

To find out more on qualified expenses, refer to Section 213 of the IRS Code, under Publication 502: Medical and Dental Expenses. To order IRS Publication 502, call 1-800-TAX-FORM (1-800-829-3676) or go to the IRS website. Please consult with your tax advisor regarding these matters. VyStar is not responsible for determining if your distributions qualify, nor do we provide tax advice.

Can self-employed individuals establish an HSA?

Sole proprietors and others who are self-employed can have an HSA and are, in fact, often ideal candidates for an HSA because:

- HDHPs generally have modest premium costs, and may be an effective cost-containment mechanism,
- the HSA protects against potentially catastrophic health care expenses, and
- the HSA may serve the dual purpose of providing for both medical and retirement expenses.

How much can I contribute to an HSA?

HSAs provide members an opportunity to reduce their costs for health insurance by as much as 70%.

- For 2010, the maximum annual HSA contribution for an eligible individual with single coverage is \$3,050.
- For family coverage, the 2010 maximum HSA contribution is \$6,150.
- For individuals who are 55 or older, an additional catch up contribution of \$1,000 can be made for 2010.

Example: If you have HDHP coverage as of June 1, 2010, you are allowed the full, non-prorated contribution for the year.

Are cash contributions the only way to fund an HSA?

It may be possible to move money from certain accounts, such as an Archer Medical Savings Account, Health Reimbursement Account or Flexible Spending Account, to an HSA. Individuals may also be allowed

a one-time rollover of money from an IRA to an HSA. Since certain restrictions apply to these options, you should seek competent tax advice to help analyze the options available to you.

Rollovers of Other Funds into an HSA - Effective January 1, 2007, individuals may contribute funds from a terminating Health Reimbursement Account (HRA) or a health care Flexible Spending Account (FSA) into an HSA.

The maximum amount that may be transferred to the HSA may not exceed the lesser of: the balance of the HRA or FSA as of September 21, 2006; or, the balance of the HRA or FSA as of the date of distribution. The distribution and transfer to your HSA is not limited by the annual contribution rules generally applicable to HSA contributions. However, an individual is limited to only one distribution and transfer as to each HRA or FSA established on their behalf. Any transfer made under this rule must be made directly to the HSA on or before December 21, 2011.

Note: If an individual does not continue to participate in an HDHP for at least 12 months after the transfer is made to the HSA, the amount transferred to the HSA will be subject to income taxation and may also be subject to an additional 10% penalty tax. For additional information regarding the ability to rollover funds from an HRA or FSA, please see the provisions of the Tax Relief and Health Care Act of 2006.

Rollover Funds from an IRA - Effective January 1, 2007, individuals will also be permitted to rollover funds from an Individual Retirement Account (IRA) to an HSA. The transfer of such funds from an IRA to an HSA can only be done once during your lifetime and the funds may not be later transferred back into the IRA. Moreover, the transfer must be done in a direct trustee-to-trustee transfer. The amount that may be transferred to the HSA is limited to the applicable contribution limit with respect to the type of coverage that you have under your HDHP at the time of the contribution. Thus, for 2010, those who have individual (single) coverage under an HDHP, the amount of the permissible transfer (rollover) would be \$3,050; for family coverage the maximum transferred amount would be \$6,150.

Note: IRA rollover counts towards the HSA contribution limit. If you do not continue to participate in an HDHP for at least 12 months after the transfer is made to the HSA, the transferred amount from the IRA will become subject to income taxation and may also be subject to an additional 10% penalty tax.

Do HSAs require reporting?

HSAs require the following government reporting:

- By Employers who make HSA Contributions to their Employees: An employer contribution is reported on a business tax return, as well as on employees' Form W-2s.
- By HSA Member: Contributions and distributions are reported to the IRS according to the Annual Tax Reporting deadline using the 1040 and related form.
- By VyStar Credit Union: Contributions will be reported to the member and IRS using Tax Form 5498-SA. Distributions will be reported using Tax Form 1099-SA.

Are my HSA funds safe?

Funds in an HSA are held in a trust and are administered by VyStar Credit Union, your HSA Administrator. Your funds are federally insured by the National Credit Union Share Insurance Fund (NCUSIF).

I want to open a VyStar HSA.

To open your Health Savings Account (HSA), visit any VyStar Branch location and speak with a Member Relationship Specialist. For more information and answers to your questions about VyStar's HSA visit the "HSA Service Center" on our website at www.vystarcu.org or contact a VyStar Representative at (904) 777-6000 or toll free 1-800-445-6289. VyChat is also available to help you via a secure live chat online with a VyStar Representative at www.vystarcu.org. (VyChat is open during Call Center hours.)

