

Q & A ON FEDERAL TAX ASPECTS OF HEALTH SAVINGS ACCOUNTS

IMPORTANT NOTE: These Questions & Answers on the federal Tax Aspects of Health Savings Accounts ("the HSA Q&As") are provided by UMB Bank, n.a. ("UMB" or "Bank") as a service to persons who are considering opening a Health Savings Account ("HSA"). They have been updated to incorporate changes made by the Tax Relief Act and Health Care Act of 2006, effective for tax years beginning after December 31, 2006. The HSA Q&As are furnished with the understanding that (i) qualifications for opening and maintaining an HSA are complex, (ii) these HSA Q&As are believed to be accurate as January 23, 2007, (iii) future changes in the law or interpretations of the law may occur that could make the information in these HSA Q&As incorrect or incomplete, and (iv) UMB is under no obligation to update the information in these HSA Q&As. Furthermore, these HSA Q&As are furnished with the understanding that an individual considering whether to open an HSA is doing so only after having first read these HSA Q&As and, to the extent the individual believes necessary, after having consulted with the person's own accountant or tax advisor. Bank is not responsible for providing tax advice to any individual. These HSA Q&As only describe information relating to the tax treatment of HSAs under the federal Internal Revenue Code (the "Code"), and do not address any other information or laws that may apply to HSAs (including state laws or laws of any other taxing jurisdiction).

OVERVIEW AND ELIGIBILITY REQUIREMENTS

What is a Health Savings Account? A Health Savings Account ("HSA") is a tax-exempt trust or custodial account created for the purpose of saving and paying for qualified medical expenses in connection with a high-deductible health plan. Authorized by Section 1201 of the Medicare Prescription Drug Improvement and Modernization Act of 2003, an HSA is established for the benefit of an individual, and is "portable." This means that if you change employers or leave the work force, the HSA stays with you rather than with your former employer. Your HSA at UMB Bank, n.a. is a custodial account that consists of all funds you or your employer contributes to your HSA, all investments you make with or through Custodian using those funds, and all earning on those funds.

Who is eligible for an HSA? An "eligible individual" may establish an HSA. An "eligible individual" means, with respect to any month, an individual who (i) is covered under a high-deductible health plan as of the first day of the month, (ii) is not also covered by any other health plan that is not

a high-deductible health plan (with certain exceptions for certain types of permitted coverage, as discussed more fully below), (iii) is not entitled to Medicare benefits, and (iv) may not be claimed as a dependent on another person's tax return.

What is a "high-deductible health plan" that makes someone eligible for an HSA? A "high-deductible health plan" is a health plan that: (1) has an annual deductible of at least \$1,200 for individual (self-only) coverage or (2) has an annual deductible of at least \$2,400 for family (coverage of more than one individual) coverage. In addition, the annual out-of-pocket expenses required to be paid under the plan cannot exceed \$5,950 for individual coverage and \$11,900 for family coverage. (These dollar amounts are the amounts in effect during 2010, and are subject to change for later tax years.) Out-of-pocket expenses include deductibles, co-payments, and other amounts the participant must pay for covered benefits, but do not include premiums or amounts incurred for non-covered benefits (including amounts in excess of usual, customary and reasonable amounts, and financial penalties).

Can a health plan that imposes a lifetime limit on benefits still qualify as a high-deductible health plan? A plan does not fail to be treated as a high-deductible health plan merely because it imposes a reasonable lifetime limit on benefits provided under the plan. In such a case, amounts paid above a lifetime limit will not be treated as out-of-pocket expenses in determining the annual out-of-pocket maximum.

Can a health plan that does not have a deductible for preventive care still qualify as a high-deductible health plan? A plan does not fail to be treated as a high-deductible health plan merely because it does not have a deductible (or has a small deductible) for preventive care. For this purpose, preventive care includes such items as periodic health evaluations, routine prenatal and well-child care, child and adult immunizations, tobacco cessation programs, obesity weight-loss programs, and certain screening services.

Who can offer a high-deductible health plan? A high-deductible health plan may be offered by a variety of entities, including insurance companies and health maintenance organizations (HMOs).

Can you be covered by another health plan and still be eligible for an HSA? Except as provided below, you are ineligible for an HSA if you are covered under another health plan that is not a high-deductible health plan (whether as an individual, spouse or dependent) in addition to your qualified high-deductible health plan.

What other types of health coverage can you maintain without losing eligibility for an HSA? You remain eligible for an HSA if, in addition to a high-deductible health plan, you have any one or more of the following:

insurance under which substantially all of the coverage relates to liabilities from workers' compensation laws, torts, or ownership or use of property (such as automobile insurance); insurance for a specified disease or illness; insurance paying a fixed amount per day (or other period) of hospitalization; or coverage (whether through insurance or otherwise) for accidents, disability, dental care, vision care, or long-term care.

You may also have coverage under an Employee Assistance Program ("EAP"), and you may have a discount card that enables you to obtain discounts for health care services or products at managed care market rates.

Are HSAs allowed under a cafeteria plan? A high-deductible health plan can be provided as part of a cafeteria plan. Such a high-deductible health plan can be used in conjunction with an HSA. The HSA can be established under a cafeteria plan.

Can an employer allow you to elect an HSA mid-year if offered as a new benefit under the employer's cafeteria plan? An employer may offer an HSA mid-year as a new benefit under a cafeteria plan, and allow you to elect an HSA, so long as your election for the HSA is made on a prospective basis. In such a situation, however, you may have other coverage under the cafeteria plan that cannot be changed (e.g., coverage under a health flexible spending account), which may prevent you from being an eligible individual with respect to the HSA.

ESTABLISHING AN HSA

How do you establish an HSA? If you are eligible for an HSA (as described above), you can establish an HSA with a qualified HSA trustee or custodian. No permission or authorization from the Internal Revenue Service ("IRS") is necessary. The trustee or custodian will furnish you a written HSA custodial or trust agreement.

Who can serve as an HSA trustee or custodian? Any insurance company or any bank (including a similar financial institution as defined in Section 408(n) of the Code) can be an HSA trustee or custodian. In addition, any other persons already approved by the IRS to be trustees or custodians of IRAs are automatically approved to be HSA trustees or custodians.

Can you revoke your HSA? For a period of seven (7) days following the date on which you enter into a Health Savings

Account Custodial Agreement with UMB Bank, n.a., you have the right to revoke the Agreement. To affect a revocation, please write or call UMB Bank, n.a., P.O. Box 419226, Kansas City, Missouri 64141 or call (866) 520-4HSA (4472). In the event notice is mailed, the postmark date (or date of certification or registration, if sent by certified or registered mail) will be deemed the date of delivery, provided that normal mailing procedures are followed. If you revoke your account within the foregoing time limits, you are entitled to a return of the entire amount deposited to your account without reduction for any fees, expenses, or commissions and without any adjustment for any investment gain or loss. However, a 10% excise tax may apply to the amounts distributed in connection with the revocation if the funds are not used for payment of qualified medical expenses.

CONTRIBUTIONS TO HSAs

Who may contribute to an HSA? Any person (an eligible individual, an employer, a family member, or any other person) may make contributions to an HSA on behalf of an eligible individual.

What are the rules regarding contributions made by your employer? If an employer makes contributions to employees' HSAs, the employer must make available comparable contributions on behalf of all employees with comparable coverage during the same period. Contributions are considered comparable if they are either of the same amount or the same percentage of the deductible under the plan. If employer contributions do not satisfy the comparability rule during a period, then the employer is subject to an excise tax equal to 35 percent of the aggregate amount contributed by the employer to HSAs for that period.

The comparability rule does not apply to contributions made through a cafeteria plan. The provision provides an exception to the comparable contribution requirements which allows employers to make larger HSA contributions for non-highly compensated employees than for highly compensated employees. For example, an employer is permitted to make a \$1,000 contribution to the HSA of each non-highly compensated employee for a year without making contributions to the HSA of each highly compensated employee.

In what form may contributions be made to an HSA? Contributions to an HSA must be made in cash. As custodian of your HSA, UMB Bank, n.a. ("UMB") will accept contributions by check or direct deposit. UMB will also accept rollovers or transfers of assets from an Archer MSA, an HSA, an FSA, or an IRA, in accordance with the requirements of the Internal Revenue Code. The custodian will require that those rollover contributions be in the form of cash. All contributions to your HSA will initially be made to an interest bearing HSA Deposit Account at UMB Bank, n.a. Other investments may be available within your custodial account as disclosed by us from time to time.

How much may be contributed to an HSA? The maximum amount that may be contributed to an HSA for any year is a certain amount established by the IRS for each year (depending on whether you have single coverage or family coverage). The amounts established by the IRS for 2010 are \$3,050 for individual coverage and \$6,150 for family coverage. The same annual contribution limit applies regardless of whether the contributions are made by an employee, an employer, or both. If you enroll in a High Deductible Health Plan (HDHP) January 1 through December 1 of the current tax year, you are allowed to make the full HSA contribution for the year. Thus, you are allowed to make contributions for months prior to enrolling in an HDHP.

You must have coverage under a qualified HDHP and remain eligible for 12 months after the end of the calendar year in which you enrolled in an HDHP. If you are not covered by an HDHP for 12 months after the end of the calendar year in which you enrolled in an HDHP, you will be subject to income tax and a 10 percent excise tax on HSA contributions for months not covered by an HDHP.

The total contribution for the year can be made in one or more payments at any time up to your tax-filing deadline (without extensions.) However, if you wish to have a contribution made between January 1 and April 15 treated as a contribution for the preceding taxable year, you must provide written notification to UMB at the time such contribution is made. Otherwise, it will be treated as a contribution for the current taxable year. The annual limit is decreased by aggregate contributions to a medical savings account (Archer MSA).

When may "catch-up" contributions be made to an HSA? If you are age 55 or over, you can make additional "catch-up" contributions to your HSA. As of January 1, 2009, the amount of this additional "catch-up" is \$1,000.

What is the tax treatment of an eligible individual's HSA contributions? When you make an eligible contribution to an HSA, the amount of your contribution (up to the maximum contribution limit discussed above) is deductible in computing your adjusted gross income. This means that your contributions are deductible whether or not you itemize deductions. In addition, any person who may be claimed as a dependent on another taxpayer's return may not claim a deduction for a contribution to an HSA. A special rule applies to certain married individuals. If either spouse has family coverage under a high-deductible health plan, both spouses shall be treated as having only such family coverage (and if such spouses each have family coverage under different plans, as having the family coverage with the lowest annual deductible). The amount allowable as a deduction after application of this rule shall be divided equally between the spouses unless they agree on a different division.

What is the tax treatment of employer contributions to an HSA? If your employer makes a contribution to an HSA for you, you are not allowed to deduct that contribution on your income tax return. Your employer, however, will be able to deduct the contribution up to your maximum contribution limit for that year. Although you cannot deduct your employer's HSA contribution, the contribution is not taxable to you or subject to income tax withholding or other employment taxes if it does not exceed your maximum contribution limit for that year.

Under certain circumstances, for tax years beginning after December 31, 2006, employers may make a one-time contribution to their employees' HSAs from a flexible spending account or HRA that is being terminated. Special rules apply. Consult your tax advisor.

When is the deadline for contributions to an HSA for any particular year? You may make HSA contributions for a particular year no later than the deadline, without extensions, for filing your federal income tax return for that year. For calendar year taxpayers, this is generally April 15 following the year for which the contributions were made. However, UMB will treat any contribution made between January 1 and April 15 as a contribution for the current taxable year unless you provide written notice to UMB at the time of such contribution that the contribution is for the preceding taxable year.

What happens when HSA contributions exceed the amount that may be deducted or excluded from gross income? A contribution made by you or your employer to an HSA that exceeds the amount allowed by law, or which is made during any year when you are not eligible to contribute, is called an "excess contribution." Excess contributions are not deductible by you or your employer and are included in your gross tax for each year they remain in your HSA. In addition, excess contributions are subject to a 6% excise. However, you may avoid the excise tax if you remove the excess contribution from your HSA, together with any net income attributable to the excess contribution, before the due date for filing your federal income tax return, including extensions, for the year for which the excess contribution was made. In that case, the net income attributable to the excess contribution would be taxable as income for the year in which the distribution is made, but, the removed excess contribution would not be taxable as income to you. Rollover contributions do not count in determining whether an excess contribution has been made.

Who is responsible for determining the amount of eligible contributions? You are responsible for determining your eligibility for an HSA and the amount of eligible contributions during any year. You are encouraged to speak with your tax advisor about these matters. As custodian, UMB has no responsibility for determining or advising

you whether any contribution complies with the requirements and limitations of the Code.

ROLLOVERS AND TRANSFERS

What are the rules regarding rollovers and transfers of HSAs? You may withdraw any portion or all of the funds from one HSA or Archer MSA and roll them to an HSA account with another custodian or trustee. However, you are required to roll the funds into a new HSA within 60 calendar days of your receipt of the funds. Another rule provides that you are only allowed to make one HSA rollover in a 12-month period. The 12-month period begins on the date you receive the distribution, not on the date you roll it to another HSA. In addition, you may transfer your Archer MSA or HSA funds directly from one HSA custodian or trustee to another without ever having direct control or custody of the funds. Rollover and transfer contributions are not deductible and do not count against the annual contribution limits discussed earlier in these HSA Q & As.

What are the rules regarding rollovers and transfers of HSA? You may withdraw any portion or all of the funds from one HSA or Archer MSA and roll them to an HSA account with another custodian or trustee. However, you are required to roll the funds into a new HSA within 60 calendar days of your receipt of the funds. Another rule provides that you are only allowed to make one HSA rollover in a 12-month period. The 12-month period begins on the date you receive the distribution, not on the date you roll it to another HSA. In addition, you may transfer your Archer MSA or HSA funds directly from one HSA custodian or trustee to another without ever having direct control or custody of the funds. Rollover and transfer contributions are not deductible and do not count against the annual contribution limits discussed earlier in these HSA Q&As.

What are the rules regarding the rollover of FSA or HRA funds into an HSA? Your Employer is permitted to make a one-time, tax-free rollover of unused Healthcare FSA or HRA balances to your HSA under certain conditions:

- Employers offering this option must give all employees covered under the Employer's HDHP the opportunity to roll over funds to the HSA.
- The rollover must be the lesser of the amount in the FSA and/or HRA as of September 21, 2006, or the amount in the account at the time of distribution. This means only employees who had the HRA or Health FSA on September 21, 2006, and through the time of distribution may make rollovers to their HSA. This does not apply to FSAs or HRAs established after this date. Note: September 21, 2006 is the date the legislation was proposed.
- The rollover must occur before January 1, 2012.

- Your Employer must send the rollover directly to your Custodian (UMB Bank, n.a.).
- You must have coverage under an HDHP for 12 months after the transfer. If you do not, the funds transferred will be treated as taxable income and subject to a 10 percent excise tax.

Funds rolled over from an FSA or HRA into your HSA are not subject to the maximum annual contribution limits. This means rollovers from the FSA or HRA to the HSA will not reduce the maximum annual contribution to the HSA during the calendar year.

What are the rules regarding the rollover of IRA funds into an HSA? You are allowed a one-time, tax-free trustee-to-trustee transfer of IRA funds into an HSA if certain conditions are satisfied:

- The transfer of funds from the IRA to HSA must be made in a direct Trustee to Trustee transfer.
- You must be covered by an HDHP and remain eligible for 12 months after your IRA rollover. If you are not eligible for 12 months after the rollover, the funds transferred will be treated as taxable income and subject to a 10 percent excise tax.
- Only Traditional or Roth IRAs can be rolled over to an HSA
- The amount of the IRA rollover to the HSA is subject to the maximum annual contribution limits. This means amounts transferred from your IRA, plus your employer contributions, plus your contributions, will all apply against the maximum annual contribution limit. You must ensure that the total of all these do not exceed the maximum annual contribution limits (see limits above).

TAX TREATMENT OF HSAs

What is the tax treatment of earnings on amounts in an HSA? Earnings on amounts in an HSA are not taxable prior to distribution from the HSA. However, HSAs are subject to the taxes imposed by Section 511 of the Code (relating to tax on unrelated business income of charitable, etc. organizations). In addition, under certain circumstances, distributions from an HSA may have tax consequences (see the following section regarding taxation of distributions).

What are the tax consequences of a "prohibited transaction"? If you or your beneficiary engages in a "prohibited transaction" as described in Section 4975 of the Code with respect to your HSA, the HSA will lose its tax exemption and its fair market value will be added to your gross income for the year in which the prohibited transaction takes place. In addition to any regular income tax that may be payable, the 10% premature distribution penalty tax may also be applicable.

Are there any tax consequences to pledging your HSA as security for a loan?

Any portion of your HSA that you pledge as security for a loan will be treated as being distributed to you in that year. In addition to any regular income tax that may be payable, the 10% premature distribution penalty tax may also be applicable.

Will your custodian provide any tax advice in connection with your HSA? As custodian, UMB will provide no tax advice concerning your HSA. The tax consequences of your HSA, including all contributions to and distributions from your HSA, are your sole responsibility. You are encouraged to discuss any questions with your own tax advisor.

DISTRIBUTIONS FROM HSAs

When can you receive distributions from an HSA? You can take a distribution from your HSA at any time. A transfer of funds from your HSA Deposit Account to another investment made available through us is not considered a "distribution," and remains part of your HSA custodial account at UMB Bank.

How are distributions from an HSA taxed? Distributions from an HSA for the qualified medical expenses of yourself or your spouse or dependents are generally excludable from income for Federal income tax purposes if such expenses are not covered by insurance. Distributions used for any other purpose are includable in income and may also be subject to an additional 10% tax (see below).

When are you subject to the 10% premature distribution penalty tax? Generally, if an HSA distribution is included in your gross income because it is not made for "qualified medical expenses," it will also be subject to an additional 10% premature distribution penalty tax. This 10% penalty tax does not apply to distributions made after your death, disability or attainment of age 65.

What happens if you receive an HSA distribution as the result of a mistake of fact due to reasonable cause? If there is clear and convincing evidence that amounts were distributed from an HSA because of a mistake of fact due to reasonable cause, you may repay the mistaken distribution no later than April 15 following the first year you knew or should have known the distribution was a mistake. Under these circumstances, the distribution is not included in your gross income or subject to the 10% additional tax, and the repayment is not subject to the 6% excise tax for excess contributions.

What medical expenses are eligible for tax-free distributions from your HSA? Distributions made for "qualified medical expenses" are generally excludable from income. For this purpose, the term "qualified medical expenses" means amounts paid for the medical care, as defined in Section 213(d) of the Code, of yourself, your spouse, or your dependents, but only to the extent such amounts are not compensated by insurance or otherwise. This includes amounts paid for the diagnosis, cure, mitigation, treatment, or

prevention of disease, or for the purpose of affecting any structure or function of the body, as well as for transportation primarily for and essential to such care. Qualified medical expenses do not include insurance premiums other than premiums for long-term care insurance, premiums on a health plan during any period of continuation coverage required by Federal law (e.g., "COBRA" coverage), or premiums for health care coverage while an individual receives unemployment compensation.

Is your custodian responsible for determining whether HSA distributions are used for medical expenses? As custodian, UMB has no responsibility for determining whether distributions from your HSA are used for qualified medical expenses. It is your sole responsibility to determine the tax consequences of any distributions, for maintaining adequate records for tax purposes, and for paying any taxes and penalties arising as a result of any such distribution. You are encouraged to consult with your legal or tax advisor concerning any questions you may have.

If you are a retiree and age 65 or older, may you receive tax-free distributions from an HSA to pay your contribution to your employer's retiree health coverage? After you reach age 65, you may receive tax-free distributions from an HSA to pay for your employer's retiree health insurance coverage. Although the purchase of health insurance is generally not a qualified medical expense that can be paid or reimbursed by an HSA, the Code provides an exception for coverage for health insurance once an account beneficiary reaches age 65. This exception applies to both insured and self-insured plans.

If you are a retiree who is enrolled in Medicare, may you receive a tax-free distribution from an HSA to reimburse your Medicare premiums? Such a distribution will be tax-free. When premiums for Medicare are deducted from Social Security benefit payments, an HSA distribution to reimburse an amount equal to the Medicare premium deduction is a qualified medical expense.

DIVORCE OR DEATH OF HSA ACCOUNT HOLDER

What are the rules that apply if your HSA is transferred pursuant to a divorce decree? The transfer of your HSA to your spouse pursuant to a divorce decree is not considered a taxable transfer. After such transfer, the former spouse will be treated as the account holder of the HSA, but the former spouse must request UMB to transfer the account to his or her name, must provide UMB with a certified copy of the divorce decree and property settlement or transfer agreement, and must sign appropriate documents to establish the account in that person's name.

What happens to your HSA upon your death? You have the right at any time to designate one or more beneficiaries to whom distribution of your HSA will be made upon your death. You also have the right to

revoke a prior beneficiary designation and, if desired, designate different individuals as beneficiaries. To be valid, any such beneficiary designation must be delivered to UMB prior to your death on a form provided by or acceptable to UMB. Any designation of beneficiary form that you file with UMB will apply to all funds in your HSA Deposit Account with UMB Bank, n.a., as well as to any other investments you make through UMB with your HSA funds. In the absence of a valid beneficiary designation, UMB will distribute the assets comprising your HSA upon your death to your estate. You should understand that in certain states, your spouse's consent may be necessary if you wish to name a person other than or in addition to your spouse as beneficiary or to change an existing beneficiary designation. You should consult with your attorney before making such a beneficiary designation.

What are the tax consequences of HSA distributions following your death? If your spouse is the named beneficiary of your HSA, your HSA becomes the HSA of your spouse upon your death, subject to UMB's consent and the completion of applicable documents as required by UMB. The surviving spouse is not required to include any amount in gross income for tax purposes as a result of your death and he or she is subject to income tax only on those distributions which are not made for qualified medical expenses. If, at your death, your HSA passes to a named beneficiary other than your surviving spouse, the HSA ceases to be an HSA as of the date of your death, and the beneficiary is required to include the fair market value of the HSA assets as of the date of death in his or her gross income for the taxable year that includes the date of death. The includible amount is reduced by the amount in the HSA used, within one year of your death, to pay your qualified medical expenses incurred prior to death. If there is no named beneficiary of your HSA, the HSA ceases to be an HSA as of the date of your death, and the fair market value of the HSA assets as of the date of death is includible in your gross income for the year of death.

STATEMENTS AND FILING REQUIREMENTS

What information must be filed with the IRS? As custodian, UMB will send each year to the IRS and to you a form, showing a valuation of your HSA as of December 31 of the prior year, and a report of the contributions to your HSA for the prior year. Unless UMB receives either a certification from your employer that contributions were made by the employer, or a notification from you that a contribution is a rollover contribution, all contributions will be reported as tax-deductible contributions made by you. Distributions will be reported by UMB on Form 1099. Unless you provide written notice to the contrary, UMB will conclusively assume that any distribution, whether by check, debit card, or otherwise, is a "normal distribution" for purposes of tax reporting. Normal distributions include distributions for qualified medical expenses, and expressly exclude the following: return

of excess contributions, distributions following your disability, distributions following your death, and prohibited transactions. If a distribution falls within one of these exceptions, you must provide written notification to UMB within seven (7) days following such distribution.

MISCELLANEOUS

Other Legal Requirements: In addition to the legal requirements discussed elsewhere in these HSA Q & As, your HSA is subject to the following rules:

- None of the funds of your HSA may be invested in life insurance contracts.
- With the exception of investments in a common trust fund or common investment fund, no assets of your HSA may be commingled.
- Your interest in the balance of the HSA custodial account is nonforfeitable.

Your HSA at UMB Bank, n.a. is subject to the terms of the UMB Bank, n.a. Health Savings Account Custodial Agreement. Your HSA Deposit Account at UMB Bank, n.a. is governed by the terms of the Health Savings Account Deposit Account Terms and Conditions. Both of these documents are part of the Enrollment Package.

If collected funds in the Deposit Account exceed an amount (a "Peg Balance") that we establish from time to time, other investment options may be available. The particular investment options, the applicable Peg Balance of each such investment, a general description of investment options, how you may select those investments, and other important disclosures are available from UMB or by calling 866-520-4HSA (4472).