



Self-Directed IRA Application Packet

Health Savings Account

**Office**

100 Concourse Parkway
Suite 170
Birmingham, AL 35244

P: (205) 985-0860

Mailing

P.O. Box 360750,
Birmingham, AL 35236

F: (205) 985-8674

Nashville

750 Old Hickory Road,
Building Two, Ste 150
Brentwood, TN 37027

(615) 794-8961



Would you like more investment choices for your retirement funds?

With an IRA INNOVATIONS self-directed IRA, you are in full control of the investments in your retirement account. You choose what you want to invest in from a wide range of permissible assets.

At IRA INNOVATIONS, our goal is to provide our customers with the most complete and accurate information regarding the full range of investments choices available within your retirement plan.

We specialize in the record keeping and administration of all truly self-directed qualified retirement plans and in educating our clients on the unique investments that are a part of them.

Here are some of the investment options that our current clients have taken advantage of:

- Real Estate – apartments, single family homes, commercial property or undeveloped land
- Limited Liability Companies
- Private Limited Partnerships
- Secured and Unsecured Notes
- Mortgages/Deeds of Trust
- Partnerships and joint ventures
- Private stock
- Publicly traded stocks, bonds, mutual funds
- Other investments
- Judgments/Structured Settlements
- Tax Sale Certificates
- Car Paper
- Factoring
- Accounts Receivable
- Commercial Paper
- Equipment Leasing

The new tax laws affecting retirement plans can be confusing and complicated. And depending upon your financial situation, your future goals and whether you might have an employee-sponsored plan available, you will need to choose between several alternatives.

Consult with your tax advisor or financial planner on the best course of action. If you decide that a self-directing your retirement investments is for you, IRA INNOVATIONS is here to help.

Call IRA Innovations at (205) 985-0860 and get started on your self-directed IRA today.

We are never in conflict with your investment decisions because we do not endorse or sell any investment products.



What's included in this packet?

Application form	Use this form to open a Traditional or Roth IRA
Fee Schedule	This document outlines the fees associated with a self-directed IRA.
Transfer form	Use this form to move your cash directly from your existing IRA to your Innovations self-directed IRA without taking receipt of the funds . Do not use this form to make a direct rollover.
Rollover form	This form is intended to document the roll over of your money and/or asset from your previous 401k to your IRA Innovations account. IRA Innovations does not initiate the roll over. To rollover your money and/or asset, please contact your current IRA holder and indicate that you would like to move your money and/or assets from your existing IRA account to your Innovations IRA . For multiple transactions, please use a separate form for each. Use this form to: <ul style="list-style-type: none">• Document your rollover contribution to IRA Innovations (take receipt of the assets for up to 60 days before reinvesting in a new retirement plan).• Document your direct rollover contribution (move assets directly from your qualified retirement plan to a new retirement plan).
IRS form 5305-HSA	The 5305-HSA defines the eligibility, contributions and other requirements and provisions for establishing a Health Savings Account. Please retain this for your records.

Before you fill out the form, you'll want to make sure you have:

- Your social security number
- Your beneficiary information

If you have a current IRA or 401(k) and you'd like to roll over or transfer funds into your account with IRA Innovations, you'll also need:

- Your employer address
- Your employer phone number
- Your account number

Once you've completed this form, please send it to:

IRA Innovations
P.O. Box 360750
Birmingham, AL 35236
Fax: (205) 985-8674
Email: info@irainnovations.com



Application Checklist

Once you've completed your application, use this checklist to make sure you have not missed anything:

- ☐ ***Have you included a clear, legible copy of your photo ID (where you can identify the person in the photo clearly)? Please make sure that the copy of the photo ID is clearly readable and legible.***
- ☐ Have you included your account set up fee, if applicable?
- ☐ Have you indicated which fee option you would prefer? Have you signed the fee option page?
- ☐ Have you completed the application?
- ☐ Have you indicated the type of account that you'd like to open?
- ☐ Have you indicated how you would like to fund your account?
- ☐ Have you documented your beneficiaries, including their Social Security Numbers?
- ☐ If applicable, have you signed your name?
- ☐ If you're married, have you reviewed the beneficiary section of the application?
- ☐ If so, has your spouse signed this section?
- ☐ Have you signed the application?

I. Personal Information

All information is required.

☐ Mr. ☐ Ms. ☐ Mrs. ☐ Dr. Legal Name _____

Legal Address (no P. O. Box allowed) _____

City, State, Zip _____

Mailing Address (optional) _____

City, State, Zip _____

Date of birth (MM/DD/YYYY)

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Social Security Number (Required)

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Home phone: _____ Fax: _____ Cell: _____

Occupation: _____ Industry: _____

(If retired, please also state former occupation and industry.)

County of Residence: _____ Marital Status: ☐ Single ☐ Married

Email: _____

From what office did you learn about IRA Innovations? ☐ Alabama ☐ Tennessee

2. Account Type

Please select one.

☐ Traditional IRA ☐ Roth IRA ☐ Health Savings Account Type: ☐ Self-only coverage ☐ Family coverage

☐ SEP IRA (Please attach 5305 SEP form.) Name of Business: _____

☐ Simple IRA (Please attach 5305 SIMPLE form.) Name of Business: _____

☐ Beneficiary IRA Original IRA Holder Name: _____

Type: ☐ Traditional ☐ Roth ☐ SEP ☐ SIMPLE

3. Application Fee

Please note there is a \$60 application fee to open an account.

Credit Card Type: ☐ Visa ☐ Mastercard ☐ Discover ☐ American Express ☐ Check (made payable to IRA Innovations LLC)

Credit Card Number: _____ - _____ - _____ - _____

Expiration Date: _____ / _____ Card Identification Number _____
(Amex - ID on card front. All others, last three digits on back of card.)

4. How You Heard About Us

☐ Internet ☐ Radio ☐ TV ☐ Article ☐ Event _____

☐ Referred by _____ ☐ Other _____

5. Indicate Beneficiaries If designating a Trust as the beneficiary, please include a copy of the Trust Abstract.

I designate the persons named below as the Primary and/or Contingent Beneficiaries of this account. A beneficiary shall be deemed to be a Primary Beneficiary if the Primary or Contingent box is not selected for said beneficiary. In the event of my demise, Primary Beneficiaries who survive me shall receive the assets of the account in equal shares (or in the specified shares, as designated). If all Primary Beneficiaries pre-decease me, Contingent Beneficiaries who survive me shall receive the assets of the account in equal shares (or in the specified shares, as designated). A Primary or Contingent beneficiary's interest and the interest of such beneficiary's heirs shall terminate completely, in the event that the aforementioned beneficiary does not survive me. In such cases, the share for any remaining Primary or Contingent Beneficiary shall be increased on a pro rata basis. In the event that there are no surviving Primary or Contingent Beneficiaries, remaining assets of the account shall be distributed to my estate in accordance with the plan provisions. This section is to be completed if your legal residence is in a Community Property State and your spouse has not been designated as your Primary Beneficiary with 100% share.

I understand that I may change or add beneficiaries at any time by completing and delivering the proper form to the Administrator.

Please initial.

☐ Primary ☐ Contingent

Name: _____ SSN: _____

Address: _____ Relationship: _____

City: _____ State: _____ Zip: _____

Date of Birth: _____ Share: _____ %

If I named a Beneficiary which is a Trust, I understand I must supply a copy or abstract of the Trust.

☐ Primary ☐ Contingent

Name: _____ SSN: _____

Address: _____ Relationship: _____

City: _____ State: _____ Zip: _____

Date of Birth: _____ Share: _____ %

If I named a Beneficiary which is a Trust, I understand I must supply a copy or abstract of the Trust.

☐ Primary ☐ Contingent

Name: _____ SSN: _____

Address: _____ Relationship: _____

City: _____ State: _____ Zip: _____

Date of Birth: _____ Share: _____ %

If I named a Beneficiary which is a Trust, I understand I must supply a copy or abstract of the Trust.

☐ Primary ☐ Contingent

Name: _____ SSN: _____

Address: _____ Relationship: _____

City: _____ State: _____ Zip: _____

Date of Birth: _____ Share: _____ %

If I named a Beneficiary which is a Trust, I understand I must supply a copy or abstract of the Trust.

6. Spousal Consent (only required if your spouse is not the primary beneficiary-see note below).

The consent of spouse must be signed only if all of the following conditions are present:

- Your spouse is living;
- Your spouse is not the sole primary beneficiary named

I am the spouse of the account holder listed above. I hereby certify that I have reviewed the Beneficiary Designation and I understand that I have a property interest in the account. I hereby acknowledge and consent to the above Beneficiary Designation other than, or in addition to, myself as primary beneficiary. I further acknowledge that I am waiving part or all of my rights to receive benefits under this plan when my spouse dies.

I, _____ hereby consent to the above Beneficiary Designation.

Spouse Signature: _____ Date: _____

7. Appointment of Custodian, Investment Direction and Important Disclosures.

Your signature is required. Please read before signing. The account holder shown on the front of this application must read this agreement carefully and sign and date this part. By signing this application, you acknowledge the following:

Custodian and Administrator: The Custodian for my account is First Trust Company of Onaga (FTCO) and the Administrator for my account is IRA Innovations, LLC. I understand that the Custodian and the Administrator may resign by giving me written notice at least 30 days prior to the effective date of such resignation. I understand that if I fail to notify the Administrator of the appointment of a successor trustee or custodian within such 30 day period, then the assets held by the Custodian in my account (whether in cash or personal or real property, wherever located, and regardless of value) will be distributed to me, outright and free of trust, and I will be wholly responsible for the tax consequences of such distribution.

No Tax, Legal or Investment Advice: I acknowledge that the Custodian and the Administrator do not provide or assume responsibility for any tax, legal or investment advice with respect to the investments and assets in my account, and will not be liable for any loss which results from my exercise of control over my account. I understand that my account is self-directed, and I take complete responsibility for any investments I choose for my account. I further understand that neither the Custodian nor the Administrator sells or endorses any investment products. If the services of the Custodian and the Administrator were marketed, suggested or otherwise recommended by any person or entity, such as a financial representative or investment promoter, I understand that such persons are not in any way agents, employees, representatives, affiliates, partners, independent contractors, consultants, or subsidiaries of the Custodian or the Administrator, and that the Custodian and Administrator are not responsible for and are not bound by any statements, representations, warranties or agreements made by any such person or entity. I agree to consult with my own CPA, attorney, financial planner, or other professional prior to directing the Administrator to make any investment in my account.

Prohibited Transactions: I understand that my account is subject to the provisions of Internal Revenue Code (IRC) Section 4975, which defines certain prohibited transactions. I acknowledge and agree that neither the Custodian nor the Administrator will make any determination as to whether any transaction or investment in my account is prohibited under sections 4975, 408(c) or 408A, or under any other state or federal law. I accept full responsibility to ensure that none of the investments in my account will constitute a prohibited transaction and that the investments in my account comply with all applicable federal and state laws, regulations and requirements.

Unrelated Business Income Tax: I understand that my account is subject to the provisions of IRC Sections 511-514 relating to Unrelated Business Taxable Income (UBTI) of tax-exempt organizations. I agree that if I direct the Administrator to make an investment in my account which generates UBTI, I will be responsible for preparing or having prepared the required IRS Form 990-T tax return, an application for an Employer Identification Number (EIN) for my account, and any other documents that may be required, and to submit them to the Administrator for filing with the Internal Revenue Service at least ten (10) days prior to the date on which the return is due, along with an appropriate directive authorizing the Administrator to execute the forms on behalf of my account and to pay the applicable tax from the assets in my account. I understand that the Custodian and the Administrator do not make any determination of whether or not investments in my account generate UBTI; have no duty to and do not monitor whether or not my account has incurred UBTI; and do not prepare Form 990-T on behalf of my account.

Valuations: I understand that the assets in my account are required to be valued annually at the end of each calendar year in accordance with IRC Section 408(i) and other guidance provided by the IRS, and that the total value of my account will be reported to the IRS on Form 5498 each year. I agree to provide the year end value of any illiquid and/or non-publicly traded investments, which may include without limitation limited partnerships, limited liability companies, privately held stock, real estate investment trusts, hedge funds, real estate, secured and unsecured promissory notes, and any other investments as the Custodian shall designate, by no later than January 10th of each year, with substantiation attached to support the value provided. I agree to indemnify and hold harmless the Custodian and the Administrator from any and all losses, expenses, settlements, or claims with regard to investment decisions, distribution values, tax reporting or any other financial impact or consequence relating to or arising from the valuation of assets in my account.

Indemnification: I agree that the Custodian and the Administrator have no duty other than to follow my written instructions, and will be under no duty to question my instructions and will not be liable for any investment losses sustained by me or my account under any circumstances.

Under penalties of perjury, I certify that the above information (including my Social Security number) is correct. I hereby agree to participate in the Individual Retirement Custodial Account offered by the Custodian. I acknowledge receipt of a copy of the plan document under which this Individual Retirement Account is established, a copy of this Adoption Agreement, and a copy of this Disclosure Statement with respect to the Individual Retirement Account. I direct that all benefits upon my death be paid as indicated above. In the event that this is a rollover contribution, I hereby irrevocably elect, pursuant to the requirements of Section 1.402(a)(5)-1T of the IRS regulations, to treat this contribution as a rollover contribution. If I named a beneficiary which is a trust, I understand I must provide certain information concerning such trust to the Custodian.

Account Holder's Signature: _____

Date: _____

I understand that the Custodian and the Administrator are acting only as my agent, and nothing will be construed as conferring fiduciary status on the Custodian or the Administrator. I agree to indemnify and hold harmless the Custodian and the Administrator from any and all claims, damages, liability, actions, costs, expenses (including reasonable attorneys' fees) and any loss to my account as a result of any action taken (or omitted to be taken) pursuant to and/or in connection with any investment transaction directed by me or my investment advisor or resulting from serving as the Custodian or the Administrator, including, without limitation, claims, damages, liability, actions and losses asserted by me.

Electronic Communications, Signatures, and Records: I acknowledge and agree that my account will be subject to the provisions of the Uniform Electronic Transactions Act, as passed in the state where the Custodian is organized (Kansas Statutes Annotated (KSA) Sections 16-601 et seq.), and the federal Electronic Signature in Global and National Commerce Act (ESIGN Act, as contained in 15 U.S.C. 7001), as those laws pertain to electronic communication, electronic signatures, and electronic storage of Custodial Account records. I understand that, in lieu of the retention of the original records, the Administrator and Custodian may cause any, or all, of their records, and records at any time in their custody, to be photographed or otherwise reproduced to permanent form, and any such photograph or reproduction shall have the same force and effect as the original thereof and may be admitted in evidence equally with the original.

Responsibility for determining eligibility and tax consequences: I assume complete responsibility for 1) determining that I am eligible to make a contribution to my account; 2) ensuring that all contributions I make are within the limits set forth by the relevant sections of the Internal Revenue Code; and 3) the tax consequences of any contribution (including a rollover contribution) and distributions.

No FDIC Insurance for Investments: I recognize that investments purchased and/or held within my account: 1) are not insured by the Federal Deposit Insurance Corporation (FDIC); 2) are not a deposit or other obligation of, or guaranteed by, either the Custodian or the Administrator; and 3) are subject to investment risks, including possible loss of the principal amount invested.

Our Privacy Policy: You have chosen to do business with the Custodian and the Administrator. As our client, the privacy of your personal non-public information is very important. We value our customer relationships and we want you to understand the protections we provide in regard to your accounts with us.

Information We May Collect: We collect non-public personal information about you from the following sources to conduct business with you:

- Information we receive from you on applications or other forms;
- Information about your transactions with us, or others;

Non-public personal information is non-public information about you that we may obtain in connection with providing financial products or services to you. This could include information you give us from account applications, account balances, and account history.

Information We May Share: We do not sell or disclose any non-public information about you to anyone, except as permitted by law or as specifically authorized by you. We do not share non-public personal information with our affiliates or other providers without prior approval by you. Federal law allows us to share information with providers that process and service your accounts. All providers of services in connection with the Custodian and Administrator have agreed to the Custodian's and the Administrator's confidentiality and security policies. If you decide to close your account or become an inactive customer, we will adhere to the privacy policies and practices as described in this notice.

Confidentiality and Security: We restrict access to non-public personal information to those employees who need to know that information to provide products and services to you. We maintain physical, electronic, and procedural guidelines that comply with federal standards to guard your non-public personal information. The Custodian and the Administrator reserve the right to revise this notice and will notify you of any changes in advance.

If you have any questions regarding this policy, please contact us at the address and or telephone number listed on this Adoption Agreement.

For office use only:

Custodian or Authorized Representative Signature _____

Date: _____

1. Annual Asset Holding Fees are due when your IRA purchases an asset and annually on the anniversary month of the asset purchase:

Annual Asset Holding Fee – Please choose ONE option:

☐ **Option One:** Fee Based on Number of Investments:
\$295 Per Asset and/or Liability

☐ **Option Two:** Fee Based on Total Account Value

*Account will be
closed if not funded
within 60 days.*

OR

Total Account Value:		Annual Asset Fee:
\$0	\$14,999.99	\$195
\$15,000	\$29,999.99	\$260
\$30,000	\$44,999.99	\$325
\$45,000	\$59,999.99	\$390
\$60,000	\$89,999.99	\$450
\$90,000	\$124,999.99	\$525
\$125,000	\$249,999.99	\$650
\$250,000	\$499,999.99	\$775
\$500,000	\$749,999.99	\$1,500
\$750,000 and up		\$1,850

2. Transaction Fees

Account set up fee: <i>Fee is due when application paperwork is submitted & includes a copy of <u>The Self Directed IRA Handbook</u>.</i>	\$60
Purchase, Sale, Exchange or Re-Registration of any non-Real Estate Asset/Liability:	\$95
Purchase, Sale, Exchange or Re-Registration of any Real Estate Asset/Liability:	\$125
Outgoing wires:	\$30 each
Cashiers or other official bank check:	\$10 each
Trust checks	\$5
Overnight mail:	\$30
Returned Items or Stop Payment Request:	\$30
Special services, such as research on any account (including closed accounts), expedited services or additional processing	\$150/hour
required for certain complex transactions: Rush fee for services requested within 24 hours	\$100 plus normal transaction charges
Account Termination	\$150

3. Pay fees by: *Please note there is a \$60 application fee to open an account.*

☐ IRA Account ☐ Visa ☐ Mastercard ☐ Discover ☐ American Express ☐ Check (*made payable to IRA Innovations*)

Credit Card Number: _____ - _____ - _____ - _____

Expiration Date: _____ / _____ Card Identification Number (CVC): _____

Billing Method: ☐ Always charge my credit card ☐ Only charge my credit card if no funds are available in my retirement

Accounts with no credit card on file are required to maintain minimum undirected cash balance as prepayment of fees in the amount of \$500.

Annual asset holding fees are normally withdrawn from your undirected funds within 20 days after the invoice date. In accordance with your plan and trust disclosure which you received as part of your application, Custodial fees are part of the plan and trust disclosure. In accordance with your Account Application, this Fee Disclosure is part of your Agreement with the Administrator and must accompany your Application. If a signed Fee Disclosure is not received with your Application, fees will be based on "Option 2—Account Value". **Custodians Fees.** I agree that Mainstar Trust (MST), Custodian shall be entitled to receive from the assets held in my account, a fee equal in amount to all income that is generated from any undirected cash (defined as any cash in my account not invested pursuant to a specific investment direction by me) which has been deposited by the Custodian into FDIC or other United States government insured financial institutions, United States government securities, or securities that are insured or guaranteed by the United States government as provided by the Plan Agreement and Disclosure. I agree that this fee may be retained by MST as compensation for the services provided by MST in relation to my account. MST may pay all or an agreed portion of this fee to IRA Innovations Inc. as agreed between MST and IRA Innovations, LLC. I acknowledge and agree that MST may hold any Undirected Cash in a deposit or product of any FDIC insured financial institution or in United States government securities or in securities that are insured or guaranteed by the United States government without any further approval or direction by me. I agree that IRA Innovations, LLC may change its fee schedule at any time by giving me 30 days prior written notice. If payment is not received within 20 days from the date reflected on the invoice, a past due notice will be mailed to me and a late fee equal to the lower of (a) 1.5% of the outstanding invoice for every month or partial month that the invoice is outstanding or (b) the maximum late penalty permitted under the state law of Alabama. Additionally, IRA Innovations, LLC may liquidate assets from the account, without notice, for any outstanding fee which has not been paid. If fees are not paid within thirty (30) days after IRA Innovations, LLC has mailed a past due notice, IRA Innovations, LLC will begin the process of closing the account. I understand that any asset distributed directly to me as part of closing my account will be reported to the IRS on Form 1099 and may subject me to possible taxes and penalties. I agree that accounts with past due fees, underfunded accounts, and accounts with zero value will continue to incur administration fees until such time as I notify IRA Innovations, LLC of my intent to close the account or until IRA Innovations, LLC and/or Custodian resigns.

Printed Name _____

Signature _____ Date _____

Use this form to move assets directly from one custodian to your IRA Innovations self-directed IRA without taking receipt of the funds. Do not use this form to make a direct rollover. If you wish to liquidate any assets as part of your transfer to IRA Innovations, ensure that the liquidation process is completed PRIOR to completing this form. Transfer of your funds may be delayed if this step is not taken. The terms and conditions of this document are incorporated into the Account holder's account application (the "Account Application"), and the terms and conditions of the Account Application are incorporated herein. Please return this form to IRA Innovations, the Administrator of your plan.

I. Personal Information

Legal Name: _____ Account #: _____

Legal Address (Required) _____

City, State, Zip _____

Home phone: _____ Fax: _____ Cell: _____

Date of birth (MM/DD/YYYY)

 / /

Social Security Number (Required)

 - -

2. Resigning Custodian/Trustee (Where your funds are currently. Express deliveries cannot be delivered to a PO Box)

Please include a recent statement from the resigning custodian account.

Name of Custodian/Trustee _____ Account number _____

Office address _____

City, State, Zip _____

Phone number: _____ Fax#: _____ Contact name: _____

3. Type of account to be transferred/eligibility (Must transfer to the same type of account at IRA Innovations.)

I am transferring FROM the following type of plan: (Check one.)

☐ Traditional ☐ Roth ☐ Beneficiary IRA ☐ SEP ☐ SIMPLE ☐ ESA ☐ HSA

I am transferring TO the following type of plan: (Check one.)

☐ Traditional ☐ Roth ☐ Beneficiary IRA ☐ SEP ☐ SIMPLE ☐ ESA ☐ HSA

I am an eligible person to perform this transaction: (Check one.)

☐ Account owner ☐ Responsible Individual (ESA) ☐ Death Beneficiary

4. Type of asset to be transferred (Indicate whether this is A. COMPLETE Transfer OR B. PARTIAL Transfer.)

Please indicate what you would like to transfer by indicating CASH and/or IN-KIND. If you need to liquidate investments, please contact your resigning Custodian to ensure the liquidation process is completed PRIOR to submitting this form. *Please select one below.*

Option 1: COMPLETE TRANSFER

- ☐ Cash - Send cash to "IRA Innovations as agent for Custodian FBO [your name] IRA # _____
- ☐ In Kind. *Additional transaction documents are required to facilitate this transfer. Please reference the Incoming In-Kind Transfer Checklist and complete next section on form.*

Option 2: PARTIAL TRANSFER

- ☐ Cash - Send cash to "IRA Innovations as agent for Custodian FBO [your name] IRA # _____
- ☐ In Kind. *Additional transaction documents are required to facilitate this transfer. Please reference the Incoming In-Kind Transfer Checklist and complete next section on form.*

*Please allow five business days for checks and one business day for wires to clear.

5. Description of assets to be transferred: Please attach additional delivery instructions if needed. Fees may apply from your resigning custodian.

Asset description (For cash balances, please indicate amount.)	Amount

6. Delivery Instructions:

a. How would you like us to send this transfer request to your current resigning Custodian?

- Via ☐ Mail ☐ Express delivery (\$30 fee) - *Cannot express to a PO Box - Please select how you would like to pay the fee:*
- ☐ Fax ☐ Check (Made payable to IRA Innovations)
- ☐ Credit card on file ☐ Credit Card authorization form attached

b. How would you like your cash sent from your resigning Custodian to IRA Innovations?

- Via ☐ Mail/Check ☐ Wire/Electronic (Please note fees may apply from your resigning custodian)
- Please allow five business days to clear. Please allow one business day to clear.*

7. Signature and Acknowledgement (This does not constitute a direct rollover.)

- I understand the rules and conditions applicable to the Account Transfer set forth herein.
- I qualify for the account transfer of assets listed in the Asset Description above and authorize such transfer.
- I understand that no person affiliated with Administrator has any authority to agree to anything different than as set forth herein.
- I hereby agree to the terms and conditions set forth in this Transfer Form and my Account Application.

Account Holder Signature

Date

PRIOR TO SIGNING, PLEASE CONSULT YOUR
RESIGNING CUSTODIAN TO DETERMINE IF A
MEDALLION GUARANTEE STAMP IS REQUIRED

(Medallion Guarantee Stamp)

For office use only

ACCEPTANCE OF RECEIVING CUSTODIAN

Pursuant to a limited written delegation, First Trust Company of Onaga, as Custodian ("Custodian"), has authorized IRA Innovations, LLC to sign this form on Custodian's behalf to verify Custodian's acceptance of the transfer described above and in agreement to apply the proceeds upon receipt to the Account established by IRA Innovations, LLC on the account holders behalf. Custodian ASSUMES NO TRUST OR FIDUCIARY OBLIGATIONS TO ACCOUNT HOLDER AS IT HAS NO INVESTMENT CONTROL OVER ACCOUNT HOLDER'S FUNDS AND ACTS ONLY AS A CUSTODIAN OF ACCOUNT HOLDER'S FUNDS. IRA Innovations, LLC on behalf of Custodian, First Trust Company of Onaga.

By: _____

Date: _____

Account #: _____

Type of Account:

- ☐ Traditional ☐ Roth ☐ Beneficiary IRA ☐ SEP ☐ SIMPLE ☐ ESA ☐ HSA

I. Personal Information All information is required.

Legal Name _____ IRA Innovations Account Type and # _____

Legal Address (no P. O. Box allowed) _____

City, State, Zip _____

Date of birth (MM/DD/YYYY)

Social Security Number (Required)

/

/

—

—

Home phone: _____ Fax: _____ Cell: _____

2. Name of Resigning Custodian/Sponsor

Company Name _____ Account # _____

Legal Address (no P. O. Box allowed) _____

City, State, Zip _____

Contact Name: _____ Contact phone: _____

3. Type of Plan You Are Rolling Over From

☐ Traditional ☐ ROTH ☐ SEP ☐ SIMPLE ☐ HSA ☐ 401K ☐ Other _____

4. Verify that you are eligible to perform this transaction - select one.

I am an eligible person to perform this transaction: (Select one): ☐ Plan participant ☐ Spouse beneficiary of account

☐ Non-spouse beneficiary of account ☐ Ex-Spouse of account due to divorce/legal separation ☐ Responsible individual

5. Rollover Instructions

To Rollover **CASH:**

Rollover Amount: \$ _____

By **CHECK** - Make check payable to IRA INNOVATIONS, LLC as agent for Custodian FBO _____ [your name] By **WIRE** - Please contact our office for wiring instructions
IRA # _____ Please allow one business day for wires to clear.

Please allow five business days for checks clear.

To Rollover **IN-KIND ASSETS:**

Please complete the section below and contact our office regarding the re-registration of your asset.

Asset Description: _____ Amount: _____

Asset Description: _____ Amount: _____

6. Signature Please print this form first, then sign and mail the document to your IRA Innovations office. Please note: Your resigning Custodian may require additional documentation. Please read the following statement carefully

IRA Innovations, L.L.C. ("Administrator") performs record keeping and administration duties in connection with Account holder's self-directed retirement account (the "Account") on behalf of the custodian ("Custodian") as set forth in Account holder's account application (the "Account Application"). The terms and conditions of this document are incorporated into the Account Application, and the terms and conditions of the Account Application are incorporated herein. I hereby agree to the terms and conditions set forth in this Rollover Certification and acknowledge having established an Account through execution of the Account Application. I understand the rules and conditions applicable to a (check one) ☐ Rollover ☐ Direct Rollover, I qualify for the Rollover or Direct Rollover of assets listed in the Asset Liquidation above and authorize such transactions. If this is a Rollover or Direct Rollover, I have been advised to see a tax advisor due to the important tax consequences of rolling assets into a self-directed account. If this is a Rollover or Direct Rollover, I assume full responsibility for this Rollover or Direct Rollover transaction and will not hold Administrator or Custodian of either the distributing or receiving plan liable for any adverse consequences that may result. I understand that no one at Administrator or any of its licensees or franchisees has authority to agree to anything different as set forth herein. If this is a Rollover or Direct Rollover, I irrevocably designate this contribution of assets with a value of \$ _____ as a rollover contribution. By signing this form, I certify that I am completing this rollover within 60 calendar days following the day I received the assets. I have not performed a rollover from an IRA within the last 12 months and the rollover DOES NOT contain my Required Minimum Distribution. If I am a non-spouse beneficiary, this is a direct rollover from an employer plan and the rollover contribution DOES NOT contain my Required Minimum Distribution.

Account holder's Signature: _____ Date: _____

The individual whose name appears on the accompanying Application Form (hereinafter called "Depositor") is establishing a Health Savings Account with IRA Innovations, LLC or its successor (hereinafter referred to as "Custodian"). This Health Savings Account is established for the exclusive benefit of the individual (or his beneficiaries) within the meaning of §223(a) of the Internal Revenue Code and the related Treasury regulations. Custodian has delegated certain Custodial Account record keeping and administrative functions ("Administrative Services") to the administrator whose name appears on the Application form (the "Administrator").

Article I

- 1.01 The Custodian or Administrator will accept additional cash contributions for the tax year made by the account owner or on behalf of the account owner (by an employer, family member or any other person). No contributions will be accepted by the Custodian or Administrator for any account owner that exceeds the maximum amount for family coverage plus the catch-up contribution.
- 1.02 Contributions for any tax year may be made at any time before the deadline for filing the account owner's federal income tax return for that year (without extensions).
- 1.03 Rollover contributions from an HSA or an Archer Medical Savings Account (Archer MSA) (unless prohibited under this agreement) need not be in cash and are not subject to the maximum annual contribution limit set forth in Article II.
- 1.04 Qualified HSA distributions from a health flexible spending arrangement or health reimbursement arrangement must be completed in a trustee-to-trustee transfer and are not subject to the maximum annual contribution limit set forth in Article II.
- 1.05 Qualified HSA funding distributions from an individual retirement account must be completed in a trustee-to-trustee transfer and are subject to the maximum annual contribution limit set forth in Article II.

Article II

- 2.01 For calendar year 2007, the maximum annual contribution limit for an account owner with single coverage is \$2,850. This amount increases to \$2,900 in 2008. For calendar year 2007, the maximum annual contribution limit for an account owner with family coverage is \$5,650. This amount increases to \$5,800 in 2008. These limits are subject to cost-of-living adjustments after 2008.
- 2.02 Contributions to Archer MSAs or other HSAs count toward the maximum annual contribution limit to this HSA.
- 2.03 For calendar year 2007, an additional \$800 catch-up contribution may be made for an account owner who is at least age 55 or older and not enrolled in Medicare. The catch-up contribution increases to \$900 in 2008 and \$1,000 in 2009 and later years.
- 2.04 Contributions in excess of the maximum annual contribution limit are subject to an excise tax. However, the catch-up contributions are not subject to an excise tax.

Article III

- 3.01 It is the responsibility of the account owner to determine whether contributions to this HSA have exceeded the maximum annual contribution limit described in Article II. If contributions to this HSA exceed the maximum annual contribution limit, the account owner shall notify the trustee that there exist excess contributions to the HSA. It is the responsibility of the account owner to request the withdrawal of the excess contribution and any net income attributable to such excess contribution.

Article IV

- 4.01 The account owner's interest in the balance in this custodial account is nonforfeitable.

Article V

- 5.01 No part of the custodial funds in this account may be invested in life insurance contracts or in collectibles as defined in section 408(m).
- 5.02 The assets of this account may not be commingled with other property except in a common trust fund or common investment fund.
- 5.03 Neither the account owner nor the Custodian or Administrator will engage in any prohibited transaction with respect to this account (such as borrowing or pledging the account or engaging in any other prohibited transaction as defined in section 4975).

Article VI

- 6.01 Distributions of funds from this HSA may be made upon the direction of the account owner.
- 6.02 Distributions from this HSA that are used exclusively to pay or reimburse qualified medical expenses of the account owner, his or her spouse, or dependents are tax-free. However, distributions that are not used for qualified medical expenses are included in the account owner's gross income and are subject to an additional 10 percent tax on that amount. The additional 10 percent tax does not apply if the distribution is made after the account owner's death, disability, or reaching age 65.
- 6.03 The Custodian or Administrator is not required to determine whether the distribution is for the payment or reimbursement of qualified medical expenses. Only the account owner is responsible for substantiating that the distribution is for qualified medical expenses and must maintain records sufficient to show, if required, that the distribution is tax-free.

Article VII

- 7.01 If the account owner dies before the entire interest in the account is distributed, the entire account will be disposed of as follows:
- 7.02 If the beneficiary is the account owner's spouse, the HSA will become the spouse's HSA as of the date of death.
- 7.03 If the beneficiary is not the account owner's spouse, the HSA 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.

Article VIII

- 8.01 The account owner agrees to provide the Custodian or Administrator with information necessary for the Custodian or Administrator to prepare any report or return required by the IRS.
- 8.02 The Custodian or Administrator agrees to prepare and submit any report or return as prescribed by the IRS. In the case of reports on form 5498, the Depositor agrees that Depositor is responsible for providing an annual report to Custodian or Administrator of the fair market value of all assets in any Custodial Account as of the last day of any calendar year, and that if Depositor fails to provide such fair market value information, that Custodian or Administrator shall issue a report on form 5498 to the IRS using the acquisition price of the assets in question.

Article IX

- 9.01 Notwithstanding any other article that may be added or incorporated in this agreement, the provisions of Articles I through VIII and this sentence are controlling. Any additional article in this agreement that is inconsistent with section 223 or IRS published guidance will be void.

Article X

- 10.01 This agreement will be amended from time to time to comply with the provisions of the Code or IRS published guidance. Other amendments may be made with the consent of the persons whose signatures appear on the Adoption Agreement.

Article XI-Trust Provisions

- 11.01 Applicable Law: This Custodial Agreement shall be governed by the laws of the state where the Trust resides.
- 11.02 Custodian and Administrator:
 - (a) The Custodian for the Custodial Account is First Trust Company of Onaga.
 - (b) The Administrator for the Custodial Account is IRA Innovations.
- 11.03 Agent for the Custodian: The Custodian has appointed the Administrator to act as agent for the Custodian for the purpose of performing administrative or other custodial-related services with respect to the Custodial Account for which the Custodian otherwise has responsibility under this Agreement. All limitations of duties to the Account Beneficiary or Designated Beneficiary, and releases or indemnifications of the Custodian by the Account Beneficiary or Designated Beneficiary in this Agreement shall apply equally to the Administrator. The Administrator shall perform duties on behalf of the Custodian which include, but are not limited to, executing applications, transfers, stock powers, escrow accounts, purchase agreements, notes, deeds, conveyances, liens, placing assets or liabilities.

ties in the Administrator's name for the benefit of the Account Beneficiary or Designated Beneficiary to provide administrative feasibility for such transactions, depositing contributions, and income, paying liabilities and distributions and government reporting for Account Beneficiaries who have established a Custodial Account with the Custodian.

- 11.04 Annual Accounting: The Custodian shall, at least annually, provide the Account Beneficiary or Designated Beneficiary (in the case of death) with an accounting of such Account Beneficiary's account. Such accounting shall be deemed to be accepted by the Account Beneficiary or Designated Beneficiary, if the Account Beneficiary or Designated Beneficiary does not object in writing within 60 days after the mailing of such accounting statement.
- 11.05 Amendment: The Account Beneficiary (or the Designated Beneficiary if the Account Beneficiary has died) irrevocably delegates to the Custodian the right and power to amend this Custodial Agreement. Except as hereafter provided, the Custodian will give the Account Beneficiary 30 days prior written notice of any amendment. In case of an amendment, including a retroactive amendment, required by law, the Custodian will provide written notice to the Account Beneficiary of the amendment within 30 days after the amendment is made, or if later, by the time that notice of the amendment is required to be given under regulations or other guidance provided by the IRS. The Account Beneficiary (or Designated Beneficiary, if applicable) shall be deemed to have consented to any such amendment unless the Account Beneficiary (or Designated Beneficiary) notifies the Custodian to the contrary within 30 days after notice to the Account Beneficiary or Designated Beneficiary and requests a distribution or transfer of the balance in the account.
- 11.06 Resignation and Removal of Custodian:
- (a) The Custodian may resign and appoint a successor trustee or custodian to serve under this agreement or under another governing agreement selected by the successor trustee or custodian by giving the Account Beneficiary or Designated Beneficiary written notice at least 30 days prior to the effective date of such resignation and appointment, which notice shall also include or be provided under separate cover a copy of such other governing instrument, if applicable, and the related disclosure statement. The Account Beneficiary or Designated Beneficiary shall then have 30 days from the date of such notice to either request a distribution of the entire account balance or designate a different successor trustee or custodian and notify the Custodian of such designation. If the Account Beneficiary or Designated Beneficiary does not request distribution of the account balance or notify the Custodian of the designation of a different successor trustee or custodian within such 30 day period, the Account Beneficiary or Designated Beneficiary shall be deemed to have consented to the appointment of the successor trustee or custodian and the terms of any new governing instrument, and neither the Account Beneficiary or Designated Beneficiary nor the successor shall be required to execute any written document to complete the transfer of the account to the successor trustee or custodian. The successor trustee or custodian may rely on any information, including beneficiary designations, previously provided by the Account Beneficiary or Designated Beneficiary to the Custodian.
 - (b) The Account Beneficiary or Designated Beneficiary may at any time remove the Custodian and replace the Custodian with a successor trustee or custodian of the Account Beneficiary or Designated Beneficiary's choice by giving 30 days notice of such removal and replacement. The Custodian shall then deliver the assets of the account as directed by the Account Beneficiary or Designated Beneficiary. However, the Custodian may retain a portion of the assets of the Custodial Account as a reserve for payment of any anticipated remaining fees and expenses, and shall pay over any remainder of this reserve to the successor trustee or custodian upon satisfaction of such fees and expenses.
 - (c) The Custodian may resign and demand that the Account Beneficiary or Designated Beneficiary appoint a successor trustee or custodian of this Custodial Account by giving the Account Beneficiary or Designated Beneficiary written notice at least 30 days prior to the effective date of such resignation. The Account Beneficiary or Designated Beneficiary shall then have 30 days from the date of such notice to designate a successor trustee or custodian, notify the Custodian of the name and address of the successor trustee or custodian, and provide the Custodian with appropriate evidence that such successor has accepted the appointment and is qualified to serve as trustee or custodian of a Health Savings Account.
 - (1) If the Account Beneficiary or Designated Beneficiary designates a successor trustee or custodian and provides the Custodian evidence of the successor's acceptance of appointment and qualification within such 30-day period, the Custodian shall then deliver all of the assets held by the Custodian in the account (whether in cash or personal or real property, wherever located, and regardless of value) to the successor trustee or custodian.
 - (2) If the Account Beneficiary or Designated Beneficiary does not notify the Custodian of the appointment of a successor trustee or custodian within such 30 day period, then the Custodian may distribute all of the assets held by the Custodian in the account (whether in cash or personal or real property, wherever located, and regardless of value) to the Account Beneficiary or Designated Beneficiary, outright and free of trust, and the Account Beneficiary or Designated Beneficiary shall be wholly responsible for the tax consequences of such distribution. In either case, the Custodian may expend any assets in the account to pay expenses of transfer (including re-registering the assets and preparation of deeds, assignments, and other instruments of transfer or conveyance) to the successor trustee or custodian or the Account Beneficiary or Designated Beneficiary, as the case may be. In addition, the Custodian may retain a portion of the assets as a reserve for payment of any anticipated remaining fees and expenses. Upon satisfaction of such fees and expenses, the Custodian shall pay over any remainder of the reserve to the successor trustee or custodian or to the Account Beneficiary or Designated Beneficiary, as the case may be.
 - (d) Administrator may at any time select a qualified successor custodian by giving the Account Beneficiary or Designated Beneficiary and Custodian written notice at least 30 days prior to the effective date of such appointment, which notice shall also include or be provided under separate cover a copy of such other governing instrument, if applicable, and the related disclosure statement. The Account Beneficiary or Designated Beneficiary shall then have 30 days from the date of such notice to either request a distribution of the entire Custodial Account balance or designate a different successor trustee or custodian and notify the Custodian and Administrator of such designation. If the Account Beneficiary or Designated Beneficiary does not request distribution of the Custodial Account balance or notify the Administrator of the designation of a different successor trustee or custodian within such 30 day period, the Account Beneficiary or Designated Beneficiary shall be deemed to have consented to the appointment of the successor custodian and the terms of any new governing instrument, and neither the Account Beneficiary or Designated Beneficiary nor the successor shall be required to execute any written document to complete the transfer of the Custodial Account to the successor custodian. The successor custodian may rely on any information, including beneficiary designations, previously provided by the Account Beneficiary or Designated Beneficiary to the Custodian.
- 11.07 Custodian's and Administrator's Fees and Expenses:
- (a) The Account Beneficiary or Designated Beneficiary agrees to pay the Custodian any and all fees specified in the Custodian's current published fee schedule for establishing and maintaining this Custodial Account, including any fees for distributions from, transfers from, and terminations of this Custodial Account. The Custodian may change its fee schedule at any time by giving the Account Beneficiary or Designated Beneficiary 30 days prior written notice.
 - (b) The Account Beneficiary or Designated Beneficiary agrees to pay any expenses incurred by the Custodian or the Administrator in the performance of its duties in connection with the account. Such expenses include, but are not limited to, administrative expenses, legal fees, accounting fees, regulatory fees and any taxes or assessments of any kind whatsoever that may be levied with respect to such account.
 - (c) All such fees, taxes, and other administrative expenses charged to the account shall be collected either from the assets in the account or from any contributions to or distributions from such account if not paid by the Account Beneficiary or Designated Beneficiary, but the Account Beneficiary or Designated Beneficiary shall be responsible for any deficiency.
 - (d) In the event that for any reason the Custodian is not certain as to who is entitled to receive all or part of the assets in the Custodial Account, the Custodian reserves the right to withhold any payment from the Custodial Account, to request a court ruling to determine the disposition of the Custodial assets, and to charge the Custodial Account for any expenses incurred in obtaining such legal determination.
 - (e) The Custodian shall be entitled to receive, from the assets held in the Custodial Account, a fee equal in amount to all income that is generated from any Undirected Cash (defined as any cash in the Custodial Account not invested pursuant to a specific investment direction by Account Beneficiary or Designated Beneficiary) which has been deposited by Custodian into FDIC or other United States government insured financial institutions, United States government securities, or securities that are insured or guaranteed by the United States government, as provided in Section 12.01(b) below. Custodian's fees from the Undirected Cash in the Custodial Account are associated with cash management activities, including, but not limited to, account maintenance, depository bank selection, transaction processing, subaccounting, record keeping, and other services performed under the terms of this Agreement. Custodian retains the right, but does not have the obligation, to reduce this fee by rebating a portion of the fee into the Custodial Account. The Account Beneficiary or Designated Beneficiary agrees that this fee may be retained by the Custodian as compensation for the services provided by Custodian under this Agreement. The Custodian may pay all or an agreed portion of this fee to the Administrator as agreed between the Custodian and the Administrator. The Custodian reserves the right to change all or part of the Custodial Fee Schedule at its discretion with 30 days advance written notice to Account Beneficiary or Designated Beneficiary.
 - (f) In addition to any portion of the Custodian's fee that the Administrator receives from the Custodian as provided in Section 11.07(e), the Administrator shall be entitled to fees for account opening, asset purchases and sales, distributions, transfers, terminations, and annual administration of the Custodial Account, along with other miscellaneous fees, as disclosed in a fee schedule provided by the Administrator to the Account Beneficiary or Designated Beneficiary. The Administrator may change its fee schedule at any time by giving the Account Beneficiary or Designated Beneficiary 30 days prior written notice. If payment is not received within thirty (30) days from the due date reflected on an invoice, a past due notice will be mailed to Account Beneficiary or Designated Beneficiary and a late fee equal to the lower of (a) 1.5% of the outstanding invoice for every month or partial month that the invoice is outstanding or (b) the maximum late penalty permitted under the state law where the Administrator is organized, shall be assessed to the Custodial Account. Additionally, assets may be liquidated from the account, without notice, for any outstanding fee which has not been paid. If fees are not paid within thirty (30) days after Administrator has mailed the past due notice, Administrator will begin the process of closing the Custodial Account. Any asset distributed directly to Account Beneficiary or Designated Beneficiary as part of closing the Custodial Account will be reported to the IRS on Form 1099-SA and may subject the Account Beneficiary or Designated Beneficiary to possible taxes and penalties. Accounts with past due fees, unfunded accounts, and accounts with zero value will continue to incur administration fees until such time as Account Beneficiary or Designated Beneficiary notifies Administrator (on a form prescribed by Custodian) of Account Beneficiary's or Designated Beneficiary's intent to close the account or until Custodian resigns.
- 11.08 Withdrawal Requests: All requests for withdrawal shall be in writing on a form provided by the Custodian. Such written notice must also contain the reason for the withdrawal and the method of distribution being requested. The Custodian, in its sole discretion, may permit payments from this HSA to be made directly to the health service provider as permitted on the form provided by the

Custodian. However, any such payments made to any person other than the Account Beneficiary (or Designated Beneficiary, if applicable) shall be reported in accordance with IRS instructions to the Account Beneficiary or Designated Beneficiary, as appropriate. The Custodian also, in its sole discretion, may develop other administrative processes to effectuate payments from this HSA, including but not limited to, check writing privileges or debit cards.

- 11.09 Responsibilities: The Account Beneficiary agrees that all information and instructions given to the Custodian by the Account Beneficiary is complete and accurate and that the Custodian shall not be responsible for any incomplete or inaccurate information provided by the Account Beneficiary or Account Beneficiary's Designated Beneficiary(ies). The Account Beneficiary agrees to be responsible for all tax consequences arising from contributions to and distributions from this Custodial account and acknowledges that no tax advice has been provided by the Custodian. The Account Beneficiary also agrees to be responsible for determining his or her eligibility to participate in this HSA, including the amount and deductibility of HSA contributions to or for distributions from the HSA for Federal and/or state income tax purposes. The Account Beneficiary also agrees to be responsible for determining whether or not the health plan meets the requirements of a High Deductible Health Plan and whether any payments from the HSA are used for eligible medical expenses.
- 11.10 Designated Beneficiary: Except as may be otherwise required by State law, in the event of the Account Beneficiary's death, the balance in the account shall be paid to the beneficiary or beneficiaries designated by the Account Beneficiary on a beneficiary designation form acceptable to and filed with the Custodian. The Account Beneficiary may change the Account Beneficiary's beneficiary or beneficiaries at any time by filing a new beneficiary designation with the Custodian. If no beneficiary designation is in effect, if none of the named beneficiaries survive the Account Beneficiary, or if the Custodian cannot locate any of the named beneficiaries after reasonable search, any balance in the account will be payable to the Account Beneficiary's Spouse, and if the Spouse has predeceased the Account Beneficiary or the Account Beneficiary has no Spouse, the benefit will be payable to the Account Beneficiary's estate. If the Account Beneficiary's Designated Beneficiary is his or her spouse, the spouse may elect to treat this HSA as the spouse's own HSA. The term Account Beneficiary also includes the Designated Beneficiary, where appropriate, throughout this Agreement.

Article XII-Self-Directed HSA Provisions

12.01 Investment of Contributions:

- (a) At the direction of the Account Beneficiary (or the direction of the Designated Beneficiary upon the Account Beneficiary's death), the Custodian shall invest all contributions to the Custodial Account and earnings thereon in investments that are acceptable to the Custodian, and that are considered administratively feasible by the Custodian, which may include but are not limited to marketable securities traded on a recognized exchange or "over the counter" (excluding any securities issued by the Custodian), certificates of deposit, real estate, deeds of trust, mortgages, unsecured notes, limited partnerships, limited liability companies, private stock, other private placement offerings, and other investments to which the Custodian consents, in such amounts as are specifically selected and specified by the Account Beneficiary or Designated Beneficiary in orders to the Custodian in such form as may be acceptable to the Custodian, without any duty to diversify and without regard to whether such property is authorized by the laws of any jurisdiction as a trust investment. The Custodian shall be responsible for the execution of such orders and for maintaining adequate records thereof. However, if any such orders are not received as required, or, if received, are unclear in the opinion of the Custodian, or if there is insufficient Undirected Cash in the Custodial Account to comply with such orders, all or a portion of the contribution may be held uninvested without liability for loss of income or appreciation, and without liability for interest pending receipt of such orders or clarification, or the contribution may be returned. The Custodian and the Administrator shall have no duty other than to follow the written investment directions of the Account Beneficiary or Designated Beneficiary, and shall be under no duty to question said instructions and shall not be liable for any investment losses sustained by the Account Beneficiary or Designated Beneficiary under any circumstances.
- (b) Account Beneficiary and Designated Beneficiary hereby acknowledge and agree that Custodian will deposit all Undirected Cash in the Custodial Account into pooled deposit accounts at one or more FDIC or other United States government insured institutions or in United States government securities or in securities that are insured or guaranteed by the United States government pending further investment direction by Account Beneficiary or Designated Beneficiary. All income generated by Undirected Cash in Custodian's pooled deposit accounts shall be retained by Custodian as fees, as described in paragraph 11.07(c) above. Account Beneficiary or Designated Beneficiary authorizes Custodian to transfer any Undirected Cash in the Custodial Account into any FDIC insured financial institution or in United States government securities or in securities that are insured or guaranteed by the United States government without any further approval or direction by the Account Beneficiary or Designated Beneficiary.

- 12.02 Indemnification: The Custodian and Administrator shall have no duty other than to follow the written instructions of the Account Beneficiary or Designated Beneficiary, and shall be under no duty to question said instructions and shall not be liable for any investment losses sustained by the Account Beneficiary or Designated Beneficiary under any circumstances. By performing services under this Agreement, the Custodian and the Administrator are acting as the agent of Account Beneficiary or Designated Beneficiary, and nothing in this Agreement shall be construed as conferring fiduciary status on the Custodian or the Administrator. The Account Beneficiary and Designated Beneficiary agree to indemnify and hold harmless the Custodian and the Administrator from any and all claims, damages, liability, actions, costs, expenses (including reasonable attorneys' fees) and any loss to the Custodial Account, to the Account Beneficiary or to Account Beneficiary's Designated Beneficiary(ies) as a result of any action taken (or omitted to be taken) pursuant to and/or in connection with any investment transaction directed by Account Beneficiary or Designated Beneficiary or their investment advisor or resulting from serving as the Custodian or the Administrator, including, without limitation, claims, damages, liability, actions and losses asserted by the Account Beneficiary or the Account Beneficiary's Designated Beneficiary(ies).

- 12.03 Registration: All assets of the Custodial Account shall be registered in the name of the Custodian, or in the name of the Administrator, who shall be the nominee of the Custodian for purposes of holding assets of the Custodial Account. The same Administrator may be the nominee of the Custodian with respect to the holding of assets of other investors whether or not held under agreements similar to this one or in any capacity whatsoever; and the Custodian may commingle the assets so held to the extent permitted by law. However, the Custodial Account and each other account or asset so held shall each be separate and distinct; a separate account therefore shall be maintained by the Custodian (or by the Administrator on behalf of the Custodian). The assets of the Custodial Account may be held by the Custodian in individual or bulk segregation either in the Custodian's vaults or vaults of the Custodian's agent or through brokerage accounts of entities permitted to hold assets of the applicable type under the Securities Exchange Act of 1934 or the Commodities Exchange Act.

- 12.04 Investment Advisor: The Account Beneficiary or Designated Beneficiary may appoint an Investment Advisor, qualified under Section 3(38) of the Employee Retirement Income Security Act of 1974, to direct the investment of the Custodial Account or any specified portion of the Custodial Account. The Account Beneficiary or Designated Beneficiary shall notify the Custodian in writing of any such appointment by providing the Custodian a copy of the instruments appointing the Investment Advisor and evidencing the Investment Advisor's acceptance of such appointment, an acknowledgment by the Investment Advisor that it is a fiduciary of the account, and a certificate evidencing the Investment Advisor's current registration under the Investment Advisor's Act of 1940. The Custodian shall comply with any investment directions furnished to it by the Investment Advisor, unless and until it receives written notification from the Account Beneficiary or Designated Beneficiary that the Investment Advisor's appointment has been terminated. The Custodian and the Administrator shall have no duty other than to follow the written investment directions of such Investment Advisor and shall be under no duty to question said instructions, and the Custodian and Administrator shall not be liable for any investment losses sustained by the Account Beneficiary or Designated Beneficiary as a result of following the written investment directions of the Account Beneficiary's or Designated Beneficiary's Investment Advisor.

- 12.05 No Investment Advice: The Account Beneficiary and Designated Beneficiary acknowledge and agree that the Custodian and the Administrator do not provide or assume responsibility for any tax, legal or investment advice with respect to the investments and assets in the Custodial Account and shall not be liable for any loss which results from the Account Beneficiary's or Designated Beneficiary's exercise of control over the Custodial Account. The Account Beneficiary the Account Beneficiary's Designated Beneficiary(ies) release, indemnify and agree to hold the Custodian and the Administrator harmless in the event that any investment or sale of the assets in the Custodial Account pursuant to a direction by the Account Beneficiary or Designated Beneficiary or the Account Beneficiary's or Designated Beneficiary's Investment Advisor violates any federal or state law or regulation or otherwise results in a disqualification, penalty, tax or fine imposed upon the Custodian, the Administrator, the Account Beneficiary, the Designated Beneficiary or the Custodial Account.

- 12.06 Prohibited Transactions: The Account Beneficiary and Designated Beneficiary acknowledge and agree that the Custodial Account is subject to the provisions of sections 4975 and 223(e)(2), which define certain prohibited transactions. Account Beneficiary and Designated Beneficiary acknowledge and agree that the Custodian and the Administrator shall make no determination as to whether any transaction or investment in the Custodial Account is prohibited under sections 4975 or under any other state or federal law. The Account Beneficiary and Designated Beneficiary understand that should the Custodial Account engage in a prohibited transaction, and depending on the type of prohibited transaction, certain assets of the Custodial Account will be deemed to have been distributed and will be subject to taxes as well as possible penalties. The Account Beneficiary and Designated Beneficiary agree that they will consult with a tax or legal professional of the Account Beneficiary's or Designated Beneficiary's choice to ensure that none of the investments in the Custodial Account will constitute a prohibited transaction and that the investments in the Custodial Account comply with all applicable federal and state laws, regulations and requirements.

- 12.07 Unrelated Business Income Tax: The Account Beneficiary and Designated Beneficiary acknowledge and agree that the Custodial Account is subject to the provisions of Internal Revenue Code Sections 511-514 relating to Unrelated Business Taxable Income (UBTI) of tax-exempt organizations. If the Account Beneficiary or Designated Beneficiary directs the Custodian to make an investment in the Custodial Account which may potentially generate UBTI, the Account Beneficiary or Designated Beneficiary agree to prepare or have prepared the required IRS Form 990-T tax return, an application for an Employer Identification Number (EIN) for the Custodial Account (if not previously obtained), and any other documents that may be required, and to submit them to the Custodian for filing with the Internal Revenue Service at least ten (10) days prior to the date on which the return is due, along with an appropriate directive authorizing the Custodian to execute the forms on behalf of the Custodial Account and to pay the applicable tax from the assets in the Custodial Account. Account Beneficiary and

Designated Beneficiary understand and acknowledge that the Custodian and the Administrator do not make any determination of whether or not investments in an HSA Custodial Account generate UBTI; have no duty to and do not monitor whether or not the Custodial Account has incurred UBTI; and do not prepare Form 990-T on behalf of the Custodial Account.

- 12.08 **Disclosures and Voting:** The Custodian shall deliver, or cause to be executed and delivered, to Account Beneficiary or Designated Beneficiary all notices, prospectuses, financial statements, proxies and proxy soliciting materials relating to assets credited to the account. The Custodian shall not vote any shares of stock or take any other action, pursuant to such documents, with respect to such assets except upon receipt by the Custodian of adequate written instructions from Account Beneficiary or Designated Beneficiary.
- 12.09 **Miscellaneous Expenses:** In addition to those expenses set out in Article XI, section 11.07 of this plan, the Account Beneficiary agrees to pay any and all expenses incurred by the Custodian in connection with the investment of the account, including expenses of preparation and filing any returns and reports with regard to unrelated business income, including taxes and estimated taxes, as well as any transfer taxes incurred in connection with the investment or reinvestment of the assets of the account.
- 12.10 **Valuations:** The assets in the Custodial Account shall be valued annually at the end of each calendar year and in the case of death, on the date of death of the Account Beneficiary, in accordance with section 223(h) and other guidance provided by the IRS, but Custodian retains the right to value the assets in the Custodial Account more frequently. In valuing the assets of the Custodial Account for record keeping and government reporting purposes, Custodian will ascertain the fair market value of each investment through utilizing various third-party pricing sources and designated valuation agents. However, Custodian does not guarantee the accuracy of prices obtained from these sources. Where assets are illiquid or their value is not readily ascertainable on either an established exchange or generally recognized market, the valuation is by necessity not a true market value and is merely an estimate of value, and Account Beneficiary and Designated Beneficiary agree not to rely on any such valuation for any other purposes. Account Beneficiary and Designated Beneficiary agree to provide the year end value of any illiquid and/or nonpublicly traded investments, which may include without limitation limited partnerships, limited liability companies, privately held stock, real estate investment trusts, hedge funds, real estate, secured and unsecured promissory notes, and any other investments as Custodian shall designate, by no later than the following January 15th. If Custodian does not receive a current year end fair market value by the following January 15th for any such investment, the Custodian shall take appropriate actions to receive the fair market value from an independent third party that specializes in valuations, paying the cost of such valuation from the liquid assets held in the Custodial Account, or in the alternative after having first received the cost of the valuation from Account Beneficiary or Designated Beneficiary if liquid investments in the Custodial Account are otherwise insufficient. Unless Custodian has received a written fair market valuation to the contrary, promissory notes and privately offered corporate debt will have valuations reflected at the face value shown on the original note or debt instrument, or if the note is subject to an amortization schedule and the amortization schedule has been provided to Custodian by Account Beneficiary or Designated Beneficiary, valuation may be shown at the principal amount shown on the amortization schedule as of the end of the previous year. Account Beneficiary and Designated Beneficiary agree to indemnify and hold harmless Custodian from any and all losses, expenses, settlements, or claims with regard to investment decisions, distribution values, tax reporting or any other financial impact or consequence relating to or arising from the valuation of assets in the Custodial Account.
- 12.11 **Insurance, Tax and Other Payments:** Custodian and Administrator shall not bear or assume any responsibility to notify Account Beneficiary or Designated Beneficiary or to secure or maintain any fire, casualty, liability or other insurance coverage, including but not limited to title insurance coverage, on any real or personal property owned in the Custodial Account or on any property which serves as collateral under any mortgage, deed of trust, or other security instrument with respect to any promissory note or other evidence of indebtedness in the Custodial Account. Account Beneficiary and Designated Beneficiary acknowledge and agree that it is the responsibility of Account Beneficiary or Designated Beneficiary to decide what insurance is necessary or appropriate for any investment in the Custodial Account, and to direct Custodian in writing (on a form prescribed by Custodian) to pay the premiums for any such insurance. Custodian and Administrator shall not be responsible for notification or payments of any real estate taxes, homeowners association dues, utilities or other charges with respect to any investment held in the Custodial Account unless Account Beneficiary or Designated Beneficiary specifically directs the Custodian to pay the same in writing (on a form prescribed by Custodian), and sufficient funds are available to pay the same from the Custodial Account. Account Beneficiary and Designated Beneficiary acknowledge and agree that it shall be Account Beneficiary's or Designated Beneficiary's responsibility to provide to Custodian or to ensure that Custodian has received any and all bills for insurance, taxes, homeowners dues, utilities or other amounts due for assets held in the Custodial Account. Furthermore, Account Beneficiary and Designated Beneficiary agree that it shall be Account Beneficiary's or Designated Beneficiary's responsibility to determine that payments have been made by verifying the payments via Account Beneficiary's or Designated Beneficiary's Custodial Account statements.

Article XIII-Glossary of Terms

- 13.01 **Account Beneficiary:** The individual on whose behalf the HSA is established and who meets the definition of an Eligible Individual.
- 13.02 **Adoption Agreement:** The form furnished by the Custodian used to establish the HSA. The Adoption Agreement is deemed to be a part of this Custodial Agreement.
- 13.03 **Archer MSA or Medical Savings Account (MSA):** A medical savings account described in Section 220 IRC.
- 13.04 **Dependents:** Dependents include any individuals who receive over half of their support for the calendar year from the taxpayer as defined in Section 152 IRC.
- 13.05 **Designated Beneficiary:** The term "designated beneficiary" means the person or persons named by the Account Beneficiary as beneficiary of the account upon the death of the Account Beneficiary.
- 13.06 **Employer:** The Employer includes the Account Beneficiary's employer, the employer of the Account Beneficiary's spouse, a self-employed individual, or the spouse of a self-employed individual. All employers which are members of a controlled group under Section 414 are considered a single employer for purposes of these rules.
- 13.07 **Eligible Individual:** The term "eligible individual" means with respect to any month, any individual who:
- (a) is covered under a high deductible health plan (HDHP) as of the first day of such month;
 - (b) is not also covered under any other health plan that is not a HDHP while being covered by the high deductible health plan;
 - (c) is not enrolled in Medicare; and
 - (d) cannot be claimed as a dependent on another person's income tax return. The rule that requires that the eligible individual not be covered under any other health plan does not include:
 - (a) coverage for any benefit provided by "permitted insurance"; and
 - (b) coverage (whether through insurance or otherwise) for accidents, disability, dental care, vision care, or long-term care.
- 13.08 **Flexible Spending Arrangement (FSA):** A flexible spending plan described in Section 125 IRC.
- 13.09 **Health Reimbursement Arrangement (HRA):** A Health Reimbursement Arrangement described in Sections 105 or 106 IRC.
- 13.10 **Health Savings Account (HSA):** A health savings account described in Section 223 IRC.
- 13.11 **High Deductible Health Plan (HDHP):** Generally, an HDHP is a health plan that satisfies certain requirements with respect to deductibles and out-of-pocket expenses. In the case of self-only coverage, the High Deductible Health Plan's annual deductible cannot be less than \$1,000, adjusted for COLAs. In the case of any other coverage (family coverage), the annual deductible cannot be less than \$2,000, adjusted for COLAs. The sum of the annual deductible and the other annual out-of-pocket expenses required to be paid under the plan (other than for premiums) for covered benefits may not exceed \$5,000, adjusted for COLAs, for self-only coverage, and \$10,000, adjusted for COLAs, for family coverage. In the case of family coverage, a plan is an HDHP only if, under the terms of the plan and without regard to which family member or members incur expenses, no amounts are payable from the HDHP until the family has incurred annual covered medical expenses in excess of the minimum annual deductible. A plan does not fail to be an HDHP merely because it does not have a deductible (or has a small deductible) for certain preventive care. Except for certain preventive care, a plan may not provide benefits for any year until the deductible for that year is met. A High Deductible Health Plan shall not include a plan where substantially all of the coverage is for accidents, disability, dental care, vision care, or long-term care. Also a high deductible health plan shall not fail to be treated as an HDHP merely because the individual has coverage for any benefit provided by "permitted insurance". Permitted insurance is insurance under which substantially all of the coverage provided relates to liabilities incurred under workers' compensation laws, tort liabilities, liabilities relating to ownership or use of property (e.g., automobile insurance), insurance for a specified disease or illness, and insurance that pays a fixed amount per day (or other period) of hospitalization.
- 13.12 **IRC:** Refers to the Internal Revenue Code, as amended.
- 13.13 **Medical Care:** Medical Care includes amounts paid for the types of medical care described in Section 213(d) IRC.
- 13.14 **Permitted Insurance:** Permitted Insurance shall include the types of insurance described in Section 223(c)(3) IRC.
- 13.15 **Qualified Medical Expenses:** Qualified medical expenses include amounts paid with respect to the individual, the individual's spouse, and the individual's dependents, for medical care defined under Section 213(d) and such amounts are not compensated for by insurance or otherwise.
- Qualified Medical Expenses** do not include any payment for insurance, except in the following cases:
- (a) a health plan during any period of continuation coverage required under any Federal law;
 - (b) a qualified long-term care insurance contract (as defined in section 7702B(b));
 - (c) a health plan during a period in which the individual is receiving unemployment compensation under any Federal or State law; or
 - (d) in the case of an Account Beneficiary who has attained the age specified in section 1811 of the Social Security Act, any health insurance other than a Medicare supplemental policy (as defined in section 1882 of the Social Security Act).
- 13.16 **Custodial Account:** The term Custodial Account means the account established under the terms of this HSA Agreement.

13.17 Custodian: The Custodian shall be the financial organization identified on the Adoption Agreement and is approved by the IRS to serve as Custodian for Health Savings Accounts pursuant to Section 223(d)(1)(B) IRC.

Article XIV – Miscellaneous Provisions

14.01 Electronic Communications, Signatures, and Records: Subject to any limitations contained in any applicable federal or state law or regulation, Account Beneficiary and Designated Beneficiary acknowledge and agree that the Custodial Account shall be subject to the provisions of the Uniform Electronic Transactions Act, as passed in the state where the Custodian is organized (Kansas Statutes Annotated (KSA) Sections 16-601 et seq.), and the federal Electronic Signature in Global and National Commerce Act (ESIGN Act, as contained in 15 U.S.C. 7001), as those laws pertain to electronic communication, electronic signatures, and electronic storage of Custodial Account records. Pursuant to KSA section 9-1130(f), in lieu of the retention of the original records, Custodian may cause any, or all, of its records, and records at any time in its custody, to be photographed or otherwise reproduced to permanent form, and any such photograph or reproduction shall have the same force and effect as the original thereof and may be admitted in evidence equally with the original.

14.02 Severability: If any provision of this Custodial Account Agreement is found to be illegal, invalid, void or unenforceable, such provision shall be severed and such illegality or invalidity shall not affect the remaining provisions which shall remain in full force and effect. Neither Account Beneficiary's or Designated Beneficiary's or Custodian's failure to enforce at any time or for any period of time any of the provisions of this Agreement shall be construed as a waiver of such provisions, or Account Beneficiary's or Designated Beneficiary's right or Custodian's right to enforce each and every such provision.

General Instructions Section references are to the Internal Revenue Code. Purpose of Form

Form 5305-C is a model custodial account agreement that has been approved by the IRS. An HSA is established after the form is fully executed by both the account owner and the custodian. The form can be completed at any time during the tax year. This account must be created in the United States for the exclusive benefit of the account owner. Do not file Form 5305-C with the IRS. Instead, keep it with your records. For more information on HSAs, see Notice 2004-2, 2004-2 I.R.B. 269, Notice 2004-50, 2004-33 I.R.B. 196, Publication 969, and other IRS published guidance.

Definitions

Identifying Number. The account owner's social security number will serve as the identification number of this HSA. For married persons, each spouse who is eligible to open an HSA and wants to contribute to an HSA must establish his or her own account. An employer identification number (EIN) is required for an HSA for which a return is filed to report unrelated business taxable income. An EIN is also required for a common fund created for HSAs.

High Deductible Health Plan (HDHP). For calendar year 2007, an HDHP for self-only coverage has a minimum annual deductible of \$1,100 and an annual out-of-pocket maximum (deductibles, copayments and other amounts, but not premiums) of \$5,500. In 2008, the \$1,100 minimum annual deductible remains the same and the annual out-of-pocket maximum increases to \$5,600. For calendar year 2007, an HDHP for family coverage has a minimum annual deductible of \$2,200 and an annual out-of-pocket maximum of \$11,000. In 2008, the \$2,200 minimum annual deductible remains the same and the annual out-of-pocket maximum increases to \$11,200. These limits are subject to cost-of-living adjustments after 2008. Self-only coverage and family coverage under an HDHP. Family coverage means coverage that is not self-only coverage.

Qualified medical expenses. Qualified medical expenses are amounts paid for medical care as defined in section 213(d) for the account owner, his or her spouse, or dependents (as defined in section 152) but only to the extent that such amounts are not compensated for by insurance or otherwise. With certain exceptions, health insurance premiums are not qualified medical expenses.

Custodian. A custodian of an HSA must be a bank, an insurance company, a person previously approved by the IRS to be a custodian of an individual retirement account (IRA) or Archer MSA, or any other person approved by the IRS.

Specific Instructions

Article XI. Article XI and any that follow it may incorporate additional provisions that are agreed to by the account owner and custodian. The additional provisions may include, for example, definitions, restrictions on rollover contributions from HSAs or Archer MSAs (requiring a rollover not later than 60 days after receipt of a distribution and limited to one rollover during a one-year period), investment powers, voting rights, exculpatory provisions, amendment and termination, removal of custodian, custodian's fees, state law requirements, treatment of excess contributions, distribution procedures (including frequency or minimum dollar amount), use of debit, credit, or stored-value cards, return of mistaken distributions, and descriptions of prohibited transactions. Attach additional pages if necessary.

HSA DISCLOSURE STATEMENT GENERAL REQUIREMENTS OF AN HSA

- Contributions must be made in cash, except for a rollover or transfer contribution from another HSA or Archer MSA and the Custodian accepts non-cash rollover or transfer contributions.
- For years prior to 2007, the annual regular contributions may not exceed the lesser of 100% of the annual deductible permitted under the Account Beneficiary's High Deductible Health Plan for such year or a specified dollar limit, subject to the monthly contribution limit explained later.
- For years beginning in 2007, the annual regular contributions may not exceed the specified dollar limit depending upon the HDHP's coverage (self-only or family), as adjusted for COLAs. These limits are explained later.
- Regular annual contributions for any taxable year may be deposited at any time during that taxable year and up to the due date for the filing of the Federal income tax return for that taxable year, no extensions. This generally means April 15th of the following year.
- The Custodian of an HSA must be a bank, insurance company or a person who is approved to act in such a capacity by the Secretary of the Treasury.
- No portion of the HSA funds may be invested in life insurance contracts.
- The interest in the HSA is nonforfeitable at all times.
- The assets in the HSA may not be commingled with other property except in a common trust fund or common investment fund.
- HSAs may not be invested in collectibles (as described in Section 408(m) of the Internal Revenue Code.) A collectible is defined as any work of art, rug or antique, metal or gem, stamp or coin, alcoholic beverage, or any other tangible personal property specified by the IRS. However, if the Custodian permits, specially minted US Gold and Silver bullion, coins and certain state-issued coins are permissible HSA investments.
- The assets of the HSA remain tax-exempt while the funds are in the Account.

WHO IS ELIGIBLE TO ESTABLISH AN HSA?

Regular contributions can be made to an HSA for any taxable year if the individual is an "Eligible Individual". The maximum contribution will be based on the number of months the individual is covered under a qualifying high deductible health plan (HDHP) and meets the definition of an eligible individual. The Account Beneficiary is responsible for determining whether he or she is an Eligible Individual, whether the health plan is an HDHP and the amount of the annual HSA contributions. The HSA custodian or trustee may, but is not required to, require proof or certification that the Account Beneficiary is an eligible individual, including that the individual is covered by a health plan that meets all of the requirements of an HDHP.

DEFINITIONS

Account Beneficiary

The Account Beneficiary is the individual on whose behalf the HSA is established and maintained. The Account Beneficiary must be an "eligible individual" in order to make HSA contributions.

Archer MSA

An Archer MSA is a Medical Savings Account described in section 220 of the Internal Revenue Code.

Designated Beneficiary

The person or persons named by the Account Beneficiary that will become entitled to the HSA balance upon the Account Beneficiary's death.

Employer

Employers include the individual's employer, the spouse's employer, a self-employed individual, or the spouse of a self-employed individual. Employers that are members of a controlled group under Section 414 are considered a single employer for purposes of these rules.

Eligible Individual

The term "Eligible Individual" means, with respect to any month, any individual who:

- (a) is covered under a high deductible health plan (HDHP) as of the first day of such month;
- (b) is not also covered under any other health plan that is not a high deductible health plan while being covered by the high deductible health plan;
- (c) is not enrolled in Medicare; and
- (d) cannot be claimed as a dependent on another person's income tax return.

The rule that requires that the employee not be covered under any other health plan does not include:

- (a) coverage for any benefit provided by "permitted insurance" (See below for definition); and
- (b) coverage (whether through insurance or otherwise) for accidents, disability, dental care, vision care, or long-term care.

High Deductible Health Plan (HDHP)

In the case of self-only coverage, the High Deductible Health Plan's annual deductible cannot be less than \$1,000, adjusted for COLAs (for 2007 this amount is \$1,100 and remains the same for 2008.).

In the case of any other coverage (family coverage), the annual deductible cannot be less than \$2,000, adjusted for COLAs (for 2007 this amount is \$2,200 and remains the same for 2008). After 2008, the health plan's deductible cannot be less than:

	Self-only Coverage	Family Coverage
2011	\$1,200	\$2,400
2012	\$1,200	\$2,400

The sum of the annual deductible and the other annual out-of-pocket expenses required to be paid under the plan (other than for premiums) for covered benefits may not exceed \$5,000, adjusted for COLAs, for self-only coverage (for 2007 this amount is \$5,500 and for 2008 it is \$5,600), and \$10,000, adjusted for COLAs, for family coverage (for 2007 this amount is \$11,000 and for 2008 it is \$11,200). After 2008, the maximum out-of-pocket cannot exceed:

	Self-only Coverage	Family Coverage
2011	\$5,950	\$11,900
2012	\$6,050	\$12,100

In the case of family coverage, a plan is an HDHP only if, under the terms of the plan and without regard to which family member or members incur expenses, no amounts are payable from the HDHP until the family has incurred annual covered medical expenses in excess of the minimum annual deductible. A plan does not fail to be an HDHP merely because it does not have a deductible (or has a small deductible) for certain preventive care (see below). Except for certain preventive care, a plan may not provide benefits for any year until the deductible for that year is met. A High Deductible Health Plan shall not include a plan where substantially all of the coverage is for accidents, disability, dental care, vision care, or longterm care. Also a high deductible health plan shall not fail to be treated as an HDHP merely because the individual has coverage for any benefit provided by "permitted insurance" (see below). Generally, an HDHP cannot provide any benefits for any year until the deductible for that year is satisfied.

Permitted Insurance

Permitted insurance is insurance under which substantially all of the coverage provided relates to liabilities incurred under workers' compensation laws, tort liabilities, liabilities relating to ownership or use of property (e.g., automobile insurance), insurance for a specified disease or illness, and insurance that pays a fixed amount per day (or other period) of hospitalization.

Preventive Care Safe Harbor IRS Notice 2004-23 provides a "safe harbor" for preventive care benefits allowed to be provided by a HDHP without satisfying the minimum deductible requirements. An HDHP may provide preventive care benefits without a deductible or with a deductible below the minimum annual deductible. Preventive care includes, but is not limited to, the following:

- Periodic health evaluations, including tests and diagnostic procedures ordered in connection with routine examinations, such as annual physicals.
- Routine prenatal and well-child care.
- Child and adult immunizations.
- Tobacco cessation programs.
- Obesity weight-loss programs.
- Screening services that are more fully described in the Appendix of Notice 2004-23

However, preventive care does not generally include any service or benefit intended to treat an existing illness, injury, or condition. Also, the determination of whether health care that is required by State law to be provided by an HDHP without regard to a deductible is "preventive" for purposes of the exception for preventive care under section 223(c)(2)(C) will be based on the standards set forth in Notice 2004-23 and other IRS guidance, rather than on how that care is characterized by State law.

Transitional Relief for Coverage Under HDHP and Separate Plan for Drug Benefits

IRS Revenue Ruling 2004-38 provides that if an individual is covered by both an HDHP that does not cover prescription drugs and by a separate prescription drug plan (or rider) that provides benefits before the minimum annual deductible of the HDHP has been satisfied, such individual is not eligible to establish an HSA and cannot make contributions to an HSA. The result is the same if the prescription drug benefit is provided as a benefit under a health plan (and not separately) or as a benefit for the individual under the spouse's plan. If a separate prescription drug plan (or rider) does not provide benefits until the minimum annual deductible of the HDHP has been satisfied, or the drug plan is part of an HDHP and subject to the minimum annual deductible, the individual is an eligible individual for purposes of establishing and making contributions to an HSA. Because of the short period between the enactment of HSAs and its effective date, many employers and health insurance providers have been unable to modify the benefits provided under their existing health plans to conform to the requirements of an HDHP. Consequently, the IRS provides transitional relief to this rule in Revenue Procedure 2004-22. For months before January 1, 2006, an individual who would otherwise be an "eligible individual", but is covered by a prescription drug benefit before the minimum annual deductible under the HDHP is satisfied, will continue to be an "eligible individual" and may make contributions to an HSA based on the annual deductible of the HDHP. This transitional relief expires on January 1, 2006.

Special Rules for Network Plans

In the case of a plan using a network of providers, special rules apply. A network plan is a plan that generally provides more favorable benefits for services provided by its network of providers than for services provided outside of the network. In the case of a plan using a network of providers, the plan does not fail to be an HDHP solely because the out-of-pocket expense limits for services provided outside of the network exceeds the maximum annual out-of-pocket expense limits allowed for an HDHP.

Qualified Medical Expenses

Qualified medical expenses include amounts paid with respect to the Account Beneficiary, the Account Beneficiary's spouse, and the Account Beneficiary's dependents, for medical care defined under section 213(d) and such amounts are not compensated for by insurance or otherwise. To be "qualified medical expenses," such expenses must be incurred only after the HSA has been established. However, IRS Notice 2004-25 provides a transitional rule for calendar year 2004 only. Under this transitional rule, eligible individuals who establish an HSA on or before April 15, 2005, may pay or reimburse on a tax-free basis an otherwise qualified medical expense if the qualified medical expense was incurred on or after the later of: (1) January 1, 2004, or (2) the first day of the first month that the individual became an eligible individual.

Generally, qualified medical expenses shall not include payment for insurance. Exceptions to this rule include any expense for coverage under:

- (a) a health plan during any period of continuation coverage required under Federal law (COBRA);
- (b) a qualified long-term care insurance contract (as defined in section 7702B(b) IRC); or
- (c) a health plan during a period in which the individual is receiving unemployment compensation under any Federal or State law.

For individuals over age 65, premiums for the following health insurance may also be paid from the HSA:

- (a) Medicare Part A
- (b) Medicare Part B
- (c) Medicare HMO
- (d) Employee's share of employer-sponsored health insurance
- (e) Employer-sponsored retiree health insurance

However, premiums for Medigap policies are not qualified medical expenses.

Medical Care

Amounts for medical care that can be paid from an HSA include:

- (a) the diagnosis, cure, mitigation, treatment, or prevention of disease, or for the purpose of affecting any structure or function of the body;
- (b) for transportation primarily for and essential to medical care referred to above; or
- (c) Amounts paid for certain lodging while away from home primarily for and essential to medical care, if such medical care is provided by a physician in a licensed hospital or medical care facility and there is no significant element of personal pleasure, recreation, or vacation in the travel away from home. The amount is limited to \$50 per night per individual.

The term medical care does not include cosmetic surgery.

Compensation

Compensation shall not include amounts paid to an HSA, if it is reasonable to believe that such contributions can be excludable from income under Section 106(b).

Dependent

Dependent includes any of the following individuals who receive over half of their support for the calendar year from the taxpayer and is not being claimed as a dependent on another taxpayer's return:

- (a) Son or daughter, or a descendant of either;
- (b) Stepson or stepdaughter;
- (c) Brother, sister, stepbrother, or stepsister;
- (d) Father or mother, or ancestor of either;
- (e) Stepfather or stepmother;
- (f) Son or daughter of a brother or sister;
- (g) Brother or sister of the father or mother;
- (h) Son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law; or
- (i) An individual (other than an individual who at any time during the year was the taxpayer's spouse) who, for the taxable year of the taxpayer, has as his/her principal place of residence, the home of the taxpayer and is a member of the taxpayer's household.

The terms brothers and sisters include half-blood relatives. A child shall include a legally adopted child, a child who is placed in the taxpayer's home by an authorized placement agency for legal adoption, a foster child. A dependent does not include an individual who is not a citizen of the US or of a country contiguous to the US. This does not include a child who is legally adopted by a US taxpayer.

CONTRIBUTIONS

Source of Regular Contributions

Cash contributions can either be made by an eligible individual, by any other person on behalf of an eligible individual, or by the employer of an employee who is an eligible individual. Unlike Archer MSAs, contributions to an HSA can be made by any of the above during the same year. Contributions made by another person are treated as if made by the Account Beneficiary. Regular HSA contributions are contributions other than rollover contributions or transfers from another HSA or Archer MSA, a mistake of fact reimbursement, or a one-time transfer from an FSA or HRA that are treated as a rollover contribution explained later. HSA contributions must be reduced by aggregate contributions to an Archer MSA. The same annual contribution limit applies regardless of whether the contributions are made by the individual, the individual's employer or another person. If an individual has more than one HSA, the aggregate annual contributions to all of the individual's HSAs are subject to the limit. After an individual has enrolled in Medicare, further contributions, including catch-up contributions, are no longer allowed. The monthly limit for such individual beginning the first month such individual is enrolled in Medicare shall be zero. Contribution limits for 2004 through 2006.

The maximum annual cash contribution is the sum of the limits determined separately for each month that the Account Beneficiary is an eligible individual. The maximum monthly contribution is the lesser of 100% of the annual deductible under the qualifying HDHP, or the maximum dollar limit divided by twelve.

HSA Contribution Limits beginning for 2007

Beginning for contributions made for 2007 and thereafter, an eligible individual's annual HSA contribution limit is the specified maximum dollar limit, regardless of the health plan's deductible amount. This provision permits eligible individuals to make higher HSA contributions when the health plan's deductible amount is lower than the specified dollar limits.

Maximum Dollar Limit Self-only Coverage Family Coverage

For 2004, \$2,250	For 2004, \$4,500
For 2005, \$2,650	For 2005, \$5,250
For 2006, \$2,700	For 2006, \$5,450
For 2007, \$2,850	For 2007, \$5,650
For 2008, \$2,900	For 2008, \$5,800
For 2009, \$3,000	For 2009, \$5,950
For 2010, \$3,050	For 2010, \$6,150
For 2011, \$3,050	For 2011, \$6,150
For 2012, \$3,100	For 2012, \$6,250

These dollar limits are adjusted for cost-of-living increases, rounded to the nearest increment of \$50.

Partial Year Coverage under Qualifying HDHP

Prior to 2007, an eligible individual's annual contribution limit was based upon the number of months during the year that the individual was actually covered under a qualifying high deductible health plan (HDHP). For example, if the individual began HDHP coverage on July 1st and the HDHP's deductible amount was \$2,000, the individual's contribution limit for that year was \$1,000 ($\$2,000/12 \times 6 = \$1,000$). However, the HDHP's deductible amount was not prorated. Consequently, the eligible individual still had to reach the HDHP's \$2,000 deductible before the health plan would pay any benefits. Beginning for contributions made for 2007 and thereafter, if an eligible individual is covered under the HDHP during the last month of the year, the individual is eligible to make the full HSA contribution, depending upon the type of coverage under the HDHP (self-only or family). This provision, therefore, "deems" that the individual was covered under the HDHP for the entire year and thus permits the individual to make the full contribution regardless of the actual number of months he was covered under the HDHP.

For example, an individual becomes enrolled under his company's HDHP with self-only coverage in December 2007. His 2007 HSA contribution limit is \$2,850 even though he was covered under the HDHP for only one month during 2007. However, in order to use this rule, the individual must continue coverage under the HDHP during the "testing period". Otherwise, the amount contributed in excess of the amount that could have been contributed under the monthly-limitation rule is subject to tax, plus an additional tax equal to 10%. This tax applies for the year when the individual ceases to be eligible to make HSA contributions, except due to death or becoming disabled. The testing period begins the last month of the taxable year and ends on the last day of the 12th month following such month.

Prorating Still Applies in Some Cases

Prorating the contribution limit in accordance with the monthly-limitation rule still applies if the eligible individual does not remain covered under the HDHP for the entire year. For example, an eligible individual is covered under a qualifying HDHP with self-only coverage from January through June of 2007. This individual's contribution limit for 2007 is \$1,425 ($\$2,850/12 \times 6 = \$1,425$).

Catch-up Contributions

For the Account Beneficiary (and spouse who is covered under the HDHP) who reaches age 55 before the end of a taxable year, an additional cash contribution may be made each year as follows:

2004:	\$500
2005:	\$600
2006:	\$700
2007:	\$800
2008:	\$900
2009 and thereafter:	\$1,000 (not subject to cost-of-living increases).

Catch-up contributions are also computed on a monthly basis. After an individual has enrolled in Medicare, further contributions, including catch-up contributions, are no longer allowed. Annual HSA contributions must be made in cash (except as noted below) and may be made by an eligible individual, any other person on behalf of an eligible individual, or the employer of an eligible individual during any given year. Rollover and/or transfer contributions may be made in cash or in kind.

Qualified HSA Funding Distribution

Beginning for contributions made for 2007 and thereafter, a special one-time, tax-free transfer from an IRA to an HSA is permitted. This one-time transfer counts toward the eligible individual's HSA contribution limit for the year of the transfer. Prior to 2007, if an IRA owner wanted to use the money in an IRA to make an annual HSA contribution, the distribution from the IRA was taxable and subject to the 10% additional tax if the individual was under the age of 59½. Prior law did not provide for a tax-free transfer from an IRA to an HSA. Beginning for annual HSA contributions made for 2007 or thereafter, an HSA-eligible individual may make an irrevocable once-in-a-lifetime, tax-free "Qualified HSA Funding Distribution" from an IRA to an HSA, subject however to strict requirements. The amount of the HSA funding distribution must be made in the form of a trustee-to-trustee transfer from the IRA to the HSA. The amount of the transfer cannot exceed the maximum HSA contribution limit for the year that the amount is transferred. Consequently, this one-time transfer from an IRA to an HSA counts toward the individual's total HSA contribution limit for the year depending upon the type of coverage under the HDHP (self-only or family). However, a special rule applies in the year of the initial transfer. If the individual has self-only coverage under the HDHP and makes a transfer under this rule from an IRA to an HSA, and then changes to family coverage under the HDHP in that same year, an additional transfer can be made to bring the individual up to the amount of the family coverage contribution limit, but must do so in the same year. Also, the IRA cannot be a SEP or SIMPLE. This one-time transfer is different from the one-time transfer from an FSA or HRA discussed later. Whereas the FSA or HRA transfer does not count against the individual's HSA contribution limit for the year, a transfer from the individual's IRA does count toward the HSA contribution limit. Also, the amount transferred cannot be deducted as an HSA contribution because the amount transferred is not a taxable distribution from the IRA. Moreover, unlike the FSA or HRA transfers, there is no deadline to make this one-time transfer from an IRA to an HSA. The amount transferred from the IRA to the HSA will be treated as coming first from the taxable portion of the IRA. Thus, this will be an exception to the normal pro-rata taxation rules applicable to traditional IRAs. However, if the individual ceases to be an HSA-eligible individual during the "testing period", the amount transferred is taxable and subject to the 10% additional tax if the individual is under the age of 59½ unless the individual dies or becomes disabled. For this purpose, the testing period begins with the month in which the qualified HSA funding distribution is contributed to an HSA and ends on the last day of the 12th month following such month.

Other General Rules

HSA contributions may be made regardless of whether the eligible individual has compensation. The HSA contribution limit is reduced by any contributions for the year to an Archer MSA. If the Account Beneficiary has more than one HSA, the aggregate of all contributions are subject to the contribution limit. The taxpayer reports all contributions and distributions by submitting Form 8889 with his or her income tax return. If a penalty is due because of an excess contribution, Form 5329 must be completed in addition to Form 8889.

Married Individuals

Jointly-owned HSAs are not permitted. An HSA is established by or on behalf of an eligible individual. In the case of eligible individuals who are married to each other, if either spouse has family coverage, both are treated as having family coverage. If each spouse has family coverage under a separate health plan, both spouses are treated as covered under the plan with the lowest deductible. The total contribution limit for the spouses is divided equally between the spouses, unless they agree on a different division. The family coverage limit is reduced by any contribution to an Archer MSA. However, both spouses may make the catch-up contributions for individuals age 55 or over without exceeding the family coverage limit. There is no formal method specified how a married couple agrees on a different division of the total contribution amount. If only one spouse is an eligible individual, only that spouse may contribute to an HSA.

Timing of HSA Contributions

HSA contributions must be made for a calendar year no later than the due date for filing the taxpayer's Federal income tax return for such calendar year, not including extensions. Contributions for the taxable year can be made in one or more payments. The maximum contribution may be made on the first day of the year.

Deduction Permitted If Contribution made by Eligible Individual or Another Individual

If an eligible individual makes a contribution to an HSA, or another individual makes a contribution on behalf of an eligible individual, an "above-the-line" deduction is permitted by the eligible individual for the taxable year equal to an amount which is the aggregate amount paid in cash during such taxable year to an HSA, subject to the contribution limit. However, if the HSA eligible individual makes the one-time, tax-free transfer from an IRA to fund the HSA for the year, no deduction is permitted with respect to the amount transferred. Contributions made by an employer within the contribution limits of the HSA are not deductible by the eligible individual, but rather treated as employer-provided coverage for medical expenses and are excluded from income. HSA contributions are deductible whether or not the eligible individual itemized deductions. An individual who may be claimed as a dependent on another person's tax return is not an eligible individual and may not deduct contributions to an HSA. HSA rules are applied without regard to community property laws.

Employer Contributions to HSA

Employer contributions to an HSA are not included in the compensation of the employee. The employer treats the HSA contributions as employer-provided coverage for medical expenses under an accident or health plan. The employer must report the amount of the HSA contribution on the employee's W-2 Form in accordance with IRS instructions for that form. Employer contributions to an HSA are not subject to withholding from wages for income tax purposes or subject to FICA, FUTA or the Railroad Retirement Tax Act. Contributions to an employee's HSA through a cafeteria plan are treated as employer contributions. In this case, the employee cannot deduct employer HSA contributions on his or her Federal income tax return as HSA contributions or as medical expense deductions under section 213. If the employer chooses to make HSA contributions, then the employer is required to make comparable HSA contributions for all participating employees (i.e., eligible employees with comparable coverage) during the same period. A comparable HSA employer contribution is (1) the same dollar amount or (2) the same percentage of the annual deductible under the high deductible health plan covering the employees divided into groups of "comparable coverage". Comparable coverage can vary between self-only coverage, family coverage and part-time employees. A part-time employee means an employee who customarily works less than 30 hours per week. The comparability rule does not apply to amounts rolled over from an employee's HSA or Archer MSA, or to contributions made through a cafeteria plan. If employer contributions do not comply with the comparability rule during a period, then the employer is subject to an excise tax equal to 35% of the aggregate amount contributed by the employer to HSAs for that period. Employer Contributions to an Employee's HSA Do Not Constitute an "ERISA" Plan The Labor Department's Employee Benefits Security Administration issued Field Assistance Bulletin No. 2004-01 that rules that HSAs generally will not constitute an employee welfare benefit plan for purposes of Title I of ERISA. As noted in the FAB, HSAs are personal health care savings vehicles rather than a form of group health insurance so long as the establishment of the HSA is completely voluntary on the part of the employee and the employer does not: (1) limit the ability of the eligible individual to move their funds to another HSA; (2) impose conditions on the utilization of HSA funds; (3) make or influence the investment decisions with respect to funds contributed to an HSA; (4) represent that the HSAs are an employee welfare benefit plan established or maintained by the employer; or (5) receive any payment or compensation in connection with the HSA.

EXCESS CONTRIBUTIONS

Generally an excess HSA contribution is any contribution made for a taxable year that exceeds the contribution limits, and such excess contribution is subject to a 6% excise tax on the principal amount of the excess each year until the excess is corrected. Excess HSA contributions are not deductible by the individual if made by or on behalf of the individual. Excess HSA contributions made by the individual's employer are included in the gross income of the employee.

Withdrawing Excess By Tax Filing Due Date - This 6% excise tax may be avoided, if the excess amount plus the earnings attributable to the excess are distributed by the individual's tax filing deadline including extensions for the year for which the excess contribution was made, and no deduction is taken for such excess amount. If the excess is corrected in this manner, the principal amount of the excess returned is not taxable, however, the earnings attributable to the excess are taxable in the year in which the distribution is received. Such earnings are also subject to the 10% additional tax (20% beginning in 2011), unless another exception applies.

Excess contributions made for one taxable year can be carried over to subsequent years, in order of time, subject to the subsequent year's contribution limit. The 6% excise tax is applied each year on the uncorrected excess amount as of the end of each taxable year.

ROLLOVER HSAs

Rollover Contributions – Rollover contributions are permitted from another HSA or Archer MSA. A rollover from another HSA or Archer MSA is any amount received from one HSA or MSA and rolled over to an HSA. The entire amount received from the first HSA or MSA is not required to be rolled over. However, any amount not rolled over will be taxed at ordinary income tax rates for Federal income tax purposes, and may be subject to an additional 10% tax (20% beginning in 2011) if the distribution does not meet one of the exceptions.

The following special rules also apply to rollovers between HSAs, or from an Archer MSA to an HSA:

- The rollover must be completed no later than the 60th day after the day the distribution was received.
- A total distribution is not required from the distributing HSA or MSA in order to make a rollover contribution into another HSA.

If a rollover is made from an HSA or MSA to an HSA, another rollover cannot be made until 12 months has passed since the first rollover. If a second rollover is made before the 12-month period has expired, such subsequent rollover cannot be treated as a tax-free rollover, and thus will be considered a taxable distribution. If an HSA is inherited by another person due to the death of the Account Beneficiary, no rollover is permitted unless the spouse of the decedent is the designated beneficiary. Rollovers from any other type of account (such as IRAs, health reimbursement arrangements, or health flexible spending arrangements) to an HSA are not permitted.

One-Time Transfer from an FSA or HRA to an HSA

Unused amounts in a Health Flexible Spending Arrangement (FSA) are forfeited at the end of each year. Balances in Health Reimbursement Arrangements (HRAs) are amounts solely funded by the employer and employees do not contribute to the HRA. Under the Tax Relief and Health Care Act of 2006, an HSA-eligible individual may make a one-time, tax-free transfer from an FSA or HRA to an HSA called a "qualified HSA distribution". The amount transferred is limited to the lesser of (1) the balance in the FSA or HRA on September 21, 2006; or (2) the balance in the FSA or HRA on the date of the transfer. Also, this one-time transfer must be done on or before December 31, 2011.

The transferred amount is treated as a rollover contribution to the HSA and thus does not reduce the HSA-eligible individual's HSA contribution limit for the year of the transfer. The amount transferred from the FSA or HRA to the HSA must be made directly by the employer to the trustee or custodian of the HSA. This provision applies only to existing FSAs or HRAs on September 21, 2006. An FSA or HRA established after September 21, 2006, would have had a balance of zero on September 21, 2006, consequently having zero eligible to make this one-time transfer contribution.

If the HSA-eligible individual makes this one-time transfer from an FSA or HRA to an HSA, but then ceases to be an HSA-eligible individual at any time during the "testing period", the amount transferred will be taxed and subject to an additional 10% tax for the year the individual ceases to be HSA-eligible. This taxation does not apply if the individual dies or becomes disabled. For this purpose, the testing period begins with the month in which the qualified HSA distribution is transferred to the HSA and ends on the last day of the 12th month following such month. The amount transferred is treated as an employer contribution made to the employee's HSA, and therefore is not deductible by the employee.

TRANSFERS

A direct transfer of all or a portion of funds is permitted from this HSA to another HSA or from another HSA or MSA to this HSA. Transfers do not constitute a distribution since the funds are not treated as received. The monies are transferred directly to the new custodian or trustee. Direct transfers are not subject to the 60-day period or the 12-month rule described above under "Rollover HSAs". If all or a portion of an HSA is transferred to a former spouse's HSA under a divorce decree (or under a written instrument incident to divorce) or separation instrument, the HSA Account Beneficiary will not be deemed to have made a taxable distribution, but merely a transfer. The portion so transferred will be treated at the time of the transfer as the HSA of the Account Beneficiary's spouse or former spouse. A direct transfer of all or a portion of funds is permitted from this HSA to another HSA or from another HSA or MSA to this HSA. Transfers do not constitute a distribution since the funds are not treated as received. The monies are transferred directly to the new trustee or custodian. Direct transfers are not subject to the 60-day period or the 12-month rule described above under "Rollover HSAs". If all or a portion of an HSA is transferred to a former spouse's HSA under a divorce decree (or under a written instrument incident to divorce) or separation instrument, the HSA Account Beneficiary will not be deemed to have made a taxable distribution, but merely a transfer. The portion so transferred will be treated at the time of the transfer as the HSA of the Account Beneficiary's spouse or former spouse. Special rules apply to a one-time transfer from an FSA or HRA to an HSA. Such transfer is treated as a rollover as described under "Rollover HSAs". Special rules apply to a one-time transfer from an IRA to an HSA.

Such transfer is treated as a regular contribution for the year of the transfer as described earlier under "Contributions".

DISTRIBUTIONS

Distributions – In General

Distributions from an HSA are permitted at any time. The custodian or trustee may, in its own discretion, permit payments from this HSA through any of the following:

1. Payments made directly to the Account Beneficiary;
2. Payments made directly to the medical service provider;
3. Check writing capabilities; or
4. Debit, credit or stored-value cards.

The Account Beneficiary may request a distribution from the HSA as qualified medical expenses are incurred, or may periodically reimburse himself or herself from the HSA for qualified medical expenses that have been incurred and paid by the individual.

Taxation of Distributions

Any amounts distributed from an HSA for qualified medical expenses of the Account Beneficiary, his or her spouse, or dependents are not included in the Account Beneficiary's gross income for the year and are not subject to any additional income tax. Amounts in an HSA can be used for qualified medical expenses and will be excludable from gross income even if the individual is not currently eligible for contributions to the HSA. Any amounts distributed from an HSA that are not used to exclusively pay for qualified medical expenses of the Account Beneficiary, his or her spouse, or dependents are included in the gross income of the Account Beneficiary. Also, such distributions will be subject to an additional 10% income tax (20% beginning in 2011), unless another exception applies.

Exceptions to the additional income tax include:

- (a) Distributions due to the Account Beneficiary becoming disabled (defined under section 72(m)(7) IRC)
- (b) Distributions made to the designated beneficiary(ies) upon the death of the Account Beneficiary.
- (c) Distributions made to a taxpayer after such individual becomes eligible for Medicare. (The age specified in section 1811 of the Social Security Act. This is currently age 65.)
- (d) Distributions from an HSA that are subsequently rolled over to another HSA within 60 days after the day of receipt of the distribution and meet the other requirements for a Rollover HSA.

Distributions are not required to begin at age 70½. The Account Beneficiary is solely responsible for determining the taxability or non-taxability of any distribution from an HSA. IRS Form 8889 is filed by the taxpayer to report contributions to an HSA, distributions from an HSA, or an acquisition of interest in an HSA because of the death of the account beneficiary.

Death of the Account Beneficiary

Upon the Account Beneficiary's death, any balance remaining in the HSA becomes the property of the designated beneficiary named in the HSA instrument as the designated beneficiary of the account. If the Account Beneficiary designated his or her spouse as the designated beneficiary, the surviving spouse shall be automatically treated as the Account Beneficiary of the HSA after the original Account Beneficiary's death. This means that when the Account Beneficiary dies, if the surviving spouse is the designated beneficiary, then such account is assumed automatically by the surviving spouse as his or her own HSA and will then be treated as the Account Beneficiary for whom the HSA is maintained. The surviving spouse is subject to income tax only to the extent distributions from the HSA are not used for qualified medical expenses.

If any other person is the designated beneficiary, then the HSA ceases to be an HSA on the date of the Account Beneficiary's death. If the designated beneficiary is a non-spouse, the fair market value of the HSA on the date of death is includible in such non-spouse beneficiary's gross income for such taxable year. If the Account Beneficiary's estate is the designated beneficiary, then the fair market value of the HSA on the decedent's date of death is includible in the decedent's gross income on the last tax return filed on behalf of the decedent. For such a person (except the decedent's estate), the includable amount is reduced by any payments from the HSA made for the decedent's qualified medical expenses, if paid within one year after death. An appropriate deduction is allowed under section 691(c) to any person (other than the decedent or the decedent's spouse) with respect to amounts included in gross income by such person.

Other Distributions

Distributions from an HSA that are not used to pay qualified medical expenses are included in gross income for the year and may also be subject to an additional 10% income tax (20% beginning in 2011), unless the distribution is received due to death; disability; attaining age 65; a qualifying rollover distribution; or the timely withdrawal of the principal amount of an excess contribution.

Mistake of Fact Distributions

Distributions (or reimbursements) from an HSA may be returned if there was reasonable cause due to a mistake-of-fact for the Account Beneficiary to believe the expenses incurred were qualified medical expenses. If there is 'clear and convincing evidence,' the Account Beneficiary may repay the distribution to the HSA no later than April 15 of the year following the year the Account Beneficiary knew (or should have known) that the expense was not a qualified medical expense. Amounts repaid under this circumstance are not included in gross income and are not subject to the additional income tax. Repayment amounts will also not be treated as new contributions or as a rollover.

Coordination of Medical Expense Deduction

For purposes of determining the amount of the medical expense deduction on the taxpayer's Federal income tax return under section 213, any payment or distribution from an HSA for qualified medical expenses shall not be treated as an expense paid for medical care. Tax-free HSA distributions used for qualified medical expenses reduce the taxpayer's medical expense deduction for Federal income tax purposes.

PROHIBITED TRANSACTIONS

If the Account Beneficiary or designated beneficiary engage in a prohibited transaction (as defined under Section 4975 of the Internal Revenue Code) with the HSA, it will lose its tax exemption and the value of the account is included in gross income for that taxable year. If any portion of an HSA is pledged as collateral for a loan, the amount so pledged will be treated as a distribution and will be included in gross income for that year.

PENALTIES

If a distribution is made for non-medical reasons from an HSA, an additional 10% income tax (20% beginning in 2011) will apply on the taxable amount of the distribution, unless another exception applies discussed earlier. If an excess contribution is made to an HSA and it is not corrected on a timely basis, an excise tax of 6% is imposed on the excess amount. This tax will apply each year to any part or all of the excess that remains in the account. IRS Form 5329 must be filed with the Internal Revenue Service for any year an additional tax is due.

FEDERAL ESTATE AND GIFT TAXES

Generally, there is no specific exclusion for HSAs under the Federal estate tax rules. Therefore, in the event of death, the HSA balance will be includible in the Account Beneficiary's gross estate for Federal estate tax purposes. However, if the surviving spouse is the beneficiary of the HSA, the amount in the HSA may qualify for the marital deduction available under Section 2056 of the Internal Revenue Code. A transfer of property for Federal gift tax purposes does not include an amount that a beneficiary receives from an HSA plan. Copyright 2006-2010, PenServ Plan Services, Inc.