

ACS | Mellon
the HSA solution

ACS/Mellon **HSA** SolutionSM



HSA

**A Revolution in Health Care
Powered by ACS/Mellon**



Make a healthy investment in your future.

At the end of 2003, Congress authorized the creation of Health Savings Accounts (HSAs). These flexible accounts are an important part of a revolution in health care funding — a revolution offering you healthcare savings, control and ownership for the first time.

With the ACS/Mellon HSA SolutionSM, you can take advantage of tremendous tax savings, build a reserve for current and future health care expenses, and enjoy the security of health care coverage that protects you and your family.

What is an HSA?

Consider an HSA your health care “piggy bank”, featuring powerful federal tax advantages:

- Contributions are tax-free;
- Potential interest and investment gains accumulate tax-free;
- Distributions are tax-free when used to pay for qualified medical expenses; and
- The remaining balance rolls over from year to year, yours to keep regardless of job changes or retirement

In addition to the federal advantages, over 40 states mirror this tax-free status with state tax deductions and/or rebates.

The idea is simple: you can use your tax-advantaged HSA dollars to pay for your health care costs, from doctor and hospital visits to co-payments, eyeglasses and prescriptions. Even better, *qualified health care expenses* paid from your HSA are applied toward meeting your annual health plan deductible.

To access a full list of qualified health care expenses, visit the IRS Web site at www.irs.gov.

If your combined expenses — whether small expenses, routine costs, or a serious accident or injury — exceed your health plan deductible, an out-of-pocket maximum “caps” your costs, but leaves your coverage in place.

More Opportunities to Save

HSAs provide additional opportunities to reduce your overall costs. Have you ever comparison shopped when buying a car or planning a trip? With your HSA, you make your own health care purchasing decisions — and you keep the rewards for making informed decisions, such as using the discounted provider network, purchasing generic prescriptions when available, and asking your physician questions about treatments and tests.

The more involved a consumer you are, the more dollars that may remain in your account at the end of the plan year to help pay future health care expenses.

[See your health plan materials for more details on your plan coverage.](#)

Getting Started

To qualify for an HSA, you must enroll in a high deductible health plan (HDHP). These plans typically offer much lower insurance premium costs compared to traditional plans in exchange for a higher deductible.

To participate in an HSA, you will need to:

1. Enroll in a high deductible health plan
2. Elect the amount of money you wish to contribute for the year
3. Receive and review your ACS/Mellon HSA SolutionSM Welcome Kit materials
4. Complete and return the required Welcome Kit materials
5. Begin funding your HSA through automatic payroll deduction, electronic funds transfer (if available), or tax-deductible lump-sum deposit
6. Receive and begin using your HSA checks and HSA debit card
7. Review your investment options when your account reaches \$3,000... you have a choice of mutual fund options and a registered representative of Dreyfus Financial Corporation ready to assist you by phone

Growing your HSA

Each year, you may contribute an amount up to your health care plan deductible or the annual IRS limit, whichever is less. For 2006, that maximum equals \$2,700 for individuals, or \$5,450 for a family. If you are age 55 or older, you may make additional catch-up contributions of up to \$700.

You can choose to fund your HSA to meet your expected health care costs for the next year, or fund all the way up to the contribution limit to build your triple tax-advantaged account for the future. In either scenario, you can make pre-tax contributions through automatic payroll deduction (if available) or through an after-tax lump sum check, taking a deduction on your taxes at the end of your tax year.

The more you contribute, the less you pay out-of-pocket with tax-deductible dollars when you need care. And the faster your funds may accumulate for your future.

Building Your Nest Egg

No “Use it or Lose It”

Unlike other medical savings accounts, the HSA has no provision insisting you “use or lose” your account dollars at the year's end. Any funds you do not use in a given plan year remain in your account, building a larger checking or “transactional” account for future health care expenses.

Invest Your Savings

When your checking account balance reaches \$3,000, you may elect to transfer \$1,000 to your new investment account.

The ACS/Mellon HSA SolutionSM features investment options from The Dreyfus Service Corporation, one of the nation's leading mutual fund companies. Your choices include multiple equity, balanced and fixed income options.

Review the HSA Investment Q&A for a list of the funds available as of January 1, 2006. Fact sheets, prospectuses and historical performance information for all funds are available at Dreyfus.com.

As you continue to build up your healthcare savings, you can also add additional monies in individual transfers or consider a convenient automatic transfer option.

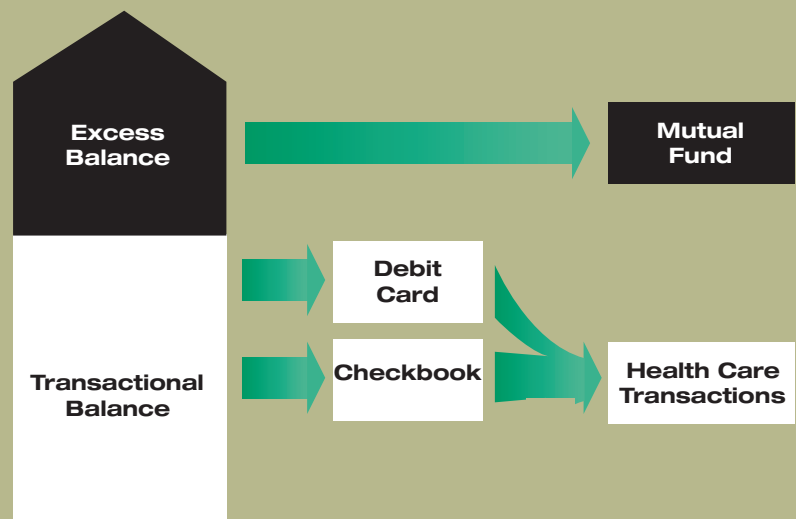
Automatic, periodic transfers to your established funds can be scheduled for as little as \$100 provided you maintain the baseline balance in the checking (transactional) account.

The ACS/Mellon HSA SolutionSM Difference

Mellon is providing your FDIC-insured transactional account, as well as your investment account with Dreyfus. In 2005, FORTUNETM Magazine rated Mellon #1 among the most admired financial institutions.

ACS is providing the administration and technology that will allow you to get the information and answers you need right when you need them. FORTUNETM Magazine rated ACS #4 among the most admired computer and data services companies in 2005.

The ACS/Mellon HSA SolutionSM



Paying for Care



We offer the convenience of multiple payment options for quick transactions with minimal paperwork. You can pay your health care expenses:

- By check from your HSA checking account
- By HSA debit card

There is no minimum distribution amount.

Managing your HSA

Keeping track of your HSA is easy. You will receive monthly statements by mail summarizing your account activities:

- Deposits
- Withdrawals
- Fees (if applicable)
- Interest/investment earnings

In addition, the ACS/Mellon HSA Member Web site gives you access to this HSA information, updated daily.

The Web site also allows you to re-order statements or checks. You can set alerts to be notified if your account balances reach a certain level or if a transaction processes.

A Seamless Experience When You Need It

The ACS/Mellon HSA SolutionSM features customer-friendly administration that minimizes your time navigating the complex world of health care claims. As you receive care and access your HSA, we employ real-time data exchange and informational links with your health plan. You receive all applicable discounted rates for your health care services, and your qualified expenses are automatically applied toward your deductible.



Life Transitions with Your HSA

If you leave your company for any reason, your HSA goes with you. You can continue to contribute to your account if you continue enrollment in a high deductible health plan. You can also continue to withdraw your funds, tax free, for qualified medical expenses.

If you withdraw funds before age 65 for non-qualified expenses, regular income taxes plus a 10 percent penalty may apply.

At age 65, you may withdraw your HSA funds, tax free, to pay health expenses and certain insurance premiums (excluding Medigap policy premiums). Distributions for non-medical expenses will be treated as gross income, without incurring tax penalties.

At death, any remaining HSA funds will pass to your named beneficiary for a taxable distribution without penalties.

If your beneficiary is your spouse, your spouse may assume ownership of the account in a tax-free transfer. As the new owner of the account, your spouse has the option to retain the account as an HSA, continuing contributions so long as they participate in a high deductible health plan and follow all rules for eligibility.

Compare costs... and add up the savings

Let's take a look at how an HSA with an HDHP stacks up to a traditional plan. We'll compare costs for a family of four who have a conventional plan and the opportunity to switch.

First, our family of four calculates their average health care costs — expenses that could be paid for with triple tax-advantaged dollars from an HSA. With co-payments, dentist's bills, prescription and eyeglass costs, the family estimates annual out-of-pocket expenses of \$2,200 per year.

The family opts to fund their HSA to the 2006 family maximum of \$5,450 to take the greatest advantage of the triple-tax savings. (For the comparison, the family enters their annual tax rate at 28 percent.)

After one year, our family has saved thousands of dollars by switching to an HSA and HDHP. Their unused balance rolls over for future use or later investment.

Download a copy of this HSA Qualified Expenses Worksheet at www.mellon.com/hris/hsa/tools.htm to find out how much **you** could be saving.

	Traditional Plan	HDHP + HSA
Deductible	\$1,000	\$5,450
Coinsurance:	80% / 20%	100%
Adding Expenses:		
Annual Premium	\$7,200	\$3,000
Out-of-Pocket Costs To Cover Deductible	\$1,000	\$
Out-of-Pocket Costs To Cover Coinsurance	\$400	\$
Out-of-Pocket Costs To Cover "Non-Covered" Health Care Expenses	\$800	\$
HSA Qualified Expenses	N.A.	\$2,200
Unused HSA Contribution	N.A.	\$3,250
Expenses Subtotal:	\$9,400	\$8,450
Calculating Savings		
Savings: HSA Contribution Federal Tax Reduction For Current Year*	1 \$ 5,450 x .28 \$1,526	2 \$8,450 - (\$1,526) \$6,924
Multiply HSA contribution by tax rate (1) to realize tax savings and subtract from the HSA expense subtotal (2)		▼
NET EXPENSES FOR CURRENT PLAN YEAR	Traditional Plan: \$9,400	HSA: \$6,924
HSA BALANCE REMAINING		\$3,250

* Additional savings are possible. Please refer to the FAQ tax section of the Mellon HSA SolutionSM Web site to review potential exemption from state and Social Security (FICA) taxes.



Take The Next Step

Keep your health care dollars under your control and in your pocket. See your health plan materials for more information about your health coverage, and then visit the ACS/Mellon HSA SolutionSM Web site at www.mellon.com/hris/hsa. You can download your own comparison worksheets and receive detailed information on how an HSA can work for you.

Frequently Asked Questions

What is an HSA?

A Health Savings Account is a special tax-sheltered savings account designated for medical expenses. An HSA allows you to pay for current qualified health expenses and save for future qualified medical and retiree health care expenses on a tax-free basis. Contributions and earnings are exempt from federal and most state income taxes, as well as Social Security (FICA) taxes. These tax savings also apply to all distributions when used to pay for qualified medical expenses.

Who is eligible to open an HSA?

To be eligible for an HSA, you must be covered by a high deductible health plan, but cannot be:

- Covered by any medical plan other than a high deductible health plan (dental and vision plans are not included in this restriction);
- Enrolled in Medicare; or
- Claimed as a dependent on another individual's tax return.

What is a "high deductible health plan" (HDHP)?

An HDHP is a health insurance plan with minimum annual deductibles of \$1,050 for individuals or \$2,100 for family coverage. The annual out-of-pocket expense maximums (including deductibles and co-payments but not including premiums) cannot exceed \$5,250 for individuals or \$10,500 for families. These amounts (for 2006) are indexed annually for inflation.

How does an HSA work?

An HSA works in conjunction with a high deductible health plan to give you health insurance coverage at a generally reduced net cost. All the money you deposit into an HSA under the annual contribution limit is 100 percent tax-deductible. You pay expenses with tax-advantaged money from the HSA until you meet your deductible, and your health care coverage pays covered expenses in excess of the deductible amount.

You can even use your tax-advantaged HSA dollars to pay for medical expenses not covered under your health plan, such as dental, vision and alternative medical expenses. Unlike a flexible spending account, unused HSA contributions roll over from year to year and accumulate to be used for future health care expenses.

Who may contribute to an HSA? Deposit Accounts

For an HSA established by an employee in connection with an HDHP offered through the employer's benefit plans, the employer, the employee or both may contribute to the HSA. A self-employed or unemployed individual may also establish and contribute to an HSA.

Why establish an HSA?

HSAs are:

- **Tax-advantaged:** Neither contributions, earnings nor withdrawals (for qualified medical expenses) are taxed.
- **Flexible:** Money accumulates and remains with you (is non-forfeitable). The funds in the account can be used for non-medical expenses, but are then subject to ordinary tax plus a 10 percent penalty if you are under age 65. (However, this 10 percent penalty does not apply if the distribution occurs after disability or death.)
- **Portable:** Accounts move with you if you change employers or retire.
- **A savings mechanism for future health needs:** Unused contributions accumulate and can be "banked" for future qualified medical expenses.

Deposit accounts provided by Mellon Trust of New England, N.A., Member FDIC.

Investment Accounts

Investment options for the ACS/Mellon HSA SolutionSM are provided by Dreyfus Service Corporation, a registered broker-dealer, investment advisor, and member of NASD. Securities in investment accounts are not FDIC insured or guaranteed by any bank, and may lose value.

Please consider the mutual funds' investment objectives, risks, charges and expenses before investing. For this and other information on any mutual fund available through your plan, call or write Dreyfus for a free prospectus. Read it carefully before you invest.

Note: This is not intended to be a complete summary of all provisions relating to Health Savings Accounts (HSAs). See your health plan for coverage details on your high deductible health plan.



www.mellon.com/hris/hsa/index.htm