

HEALTH SAVINGS ACCOUNT (HSA) DISCLOSURE STATEMENT

Right to Revoke

If, within seven days from the date you sign the written agreement establishing your Health Savings Account (HSA), you decide for any reason that you do not wish to establish the HSA, then you may revoke your HSA by notifying American Fidelity Health Services Administration in writing of your revocation. The written notice must either be delivered in person or mailed within the seven-day period to the following address:

American Fidelity Health Services Administration
2000 N Classen Blvd, G16
Oklahoma City, OK 73106-6013

If you choose to mail the notice of revocation, the date of the postmark will be considered the date of mailing, unless the notice is sent by certified or registered mail, in which case the date of certification or registration will be considered the date mailed. The notice must be mailed from within the United States in an envelope or other appropriate wrapper, postage prepaid, properly addressed, and sent by first class, certified, or registered mail. If you elect to revoke your HSA, you are entitled to receive a refund of the entire amount paid into the account without any adjustment or penalty. If, during the seven-day period in which you are entitled to revoke your account, a material adverse change in the information set forth in this disclosure statement or in the agreement establishing your HSA becomes effective, you will be notified of that change and a new seven-day period during which you may revoke will begin on the date you receive notice of such changes.

- I. **Introduction:** This Disclosure Statement is given to you to explain, in plain English, the various rules governing your HSA. The content of the Disclosure Statement relates to your rights as an HSA Depositor. Please note that the Disclosure Statement is a summary and should be read in conjunction with the Health Savings Account Custodial Agreement. In the event of any conflict, the provisions of the Agreement will prevail. In addition, your tax advisor should be consulted regarding the tax effects of an HSA.
- II. **General Rules:** An HSA must satisfy certain requirements of the Internal Revenue Code ("Code"). The HSA Custodial Agreement incorporates those requirements. In brief, the HSA must satisfy the following requirements: (1) a written instrument must govern the HSA; (2) the Custodian, except in the case of a "rollover" or a direct transfer, may accept only cash contributions; (3) the HSA may not be invested in life insurance contracts; (4) your interest in the HSA must be non-forfeitable at all times; and (5) with certain limited exceptions, the Custodian may not commingle your HSA with other property. Amounts contributed to your HSA are generally not subject to Federal income taxes. In addition, distributions from your HSA that are used to pay qualified medical expenses will not be subject to Federal income taxes. Amounts which are not used for qualified medical expenses are subject to Federal income taxes and may be subject to a 10% penalty tax unless the distribution is due to your death or total disability or is made after your attainment of the age set forth in Section 1811 of the Social Security Act (which is generally age 65). In addition, any earnings on investments in the HSA are not subject to taxes based on the distribution rules. This means that any earnings on amounts in your HSA are not taxable unless you withdraw them for any reason other than the payment of qualified medical expenses.
- III. **HSA Contributions:**
- A. **Eligibility:** In order to be eligible to establish and/or make contributions to your HSA, there are two (2) general requirements that must be satisfied as of the first day of any month for which you want to make a contribution.
1. You must be covered under a "qualified high deductible health plan" (QHDHP). A QHDHP is a health plan with a deductible of at least \$1,150 in the case of single coverage and at least \$2,300 in the case of family coverage. In addition, the maximum out-of-pocket expenses with respect to allowed costs (including the deductible) must be no more than \$5,800 in the case of self-only coverage and no more than \$11,600 in the case of family coverage. (These amounts are for 2009 and may be increased annually due to inflation.) The provider of the high deductible health plan should be able to tell you whether or not the plan satisfies the HSA eligibility requirements.
 2. You must not have any other health coverage other than certain permissible health coverage. Permissible health coverage includes coverage for accidents, disability, dental care, vision care or long-term care. In addition, the following types of insurance are permitted: (a) insurance where substantially all of the coverage relates to certain permitted liability coverage (e.g., auto insurance), (b) insurance for a specified disease or illness, and (c) insurance paying a fixed amount per day (or other period) of hospitalization.
Caution: You must be careful in determining whether you have "no other coverage." All health care coverage available to you, and possibly to your spouse and your dependents, must be examined to make certain that the requirement is met. Coverage under a spouse's health plan, a Health Reimbursement Arrangement (HRA) or a Health Care Flexible Spending Account (health FSA) offered through a cafeteria plan under Code Section 125 could all be potential problems. To the extent these provide coverage that is not subject to a deductible or limited to the permissible types of coverage, then coverage under one of these plans of either you, your spouse, or your dependents could affect your eligibility to have contributions made to an HSA.
- B. **Maximum Contributions:** You, or anyone on your behalf (including an employer or family member) may make contributions to your HSA. The sum of all contributions are subject to maximum contribution levels as established by law and is reduced by the amount of any Archer MSA or IRA rollover contributions you have made for the year. For the 2009 calendar year and after, the maximum amount that may be contributed to your HSA is \$3,000 for self-only coverage or \$5,950 for family coverage. If you contribute the maximum allowed in any year where your QHDHP coverage is less than 12 months, regulations require that you must be covered in December of that year and must continue to be covered by a QHDHP for 12 months after the end of the year in which you enrolled in a QHDHP. If you are not covered under a QHDHP during that time period, then the portion of your contribution which could not have been contributed will need to be included in your income which is taxable and subject to an additional 10% tax.
- C. **Catch-up Contributions:** In addition, if you are 55 or older as of the end of the taxable year, you can make an additional contribution above the maximum stated above. The maximum catch-up contribution is \$900 in 2008, and \$1,000 in 2009 and thereafter. If your QHDHP coverage is less than 12 months for the year, the rules in the last sentence of (B) above will apply.
There are some other special rules you need to be aware of:
1. No contribution may be made if you can be claimed as a dependent on another taxpayer's return.
 2. The contribution limit is \$0 as of the first month you are entitled to benefits under Title XVIII of the Social Security Act.
 3. If you have family coverage under a high deductible health plan, the maximum HSA contribution limit applies to you and your spouse on a combined basis, but you may split up the amount among your HSAs in any manner you want. However, the catch-up contribution for individuals age 55 or older is an individual limit and if you and your spouse are both over age 55, each of you may make the additional contribution only if both have an HSA.
- IV. **Deadline for Making HSA Contributions:** Once the HSA has been established, contributions for a year may be made as of the first day of such year. The latest date on which contributions can be made for a year is the due date of your Federal Income Tax Return for that year. Except under unusual circumstances, this date is April 15th; extensions are not included.
- V. **Excess Contributions:** Contribution to your HSA may not exceed the amount determined in III above. There is an exception for rollovers, which are explained in Section VI. Should you make a contribution in excess of the above limits, called an "excess contribution," you are required by law to remove it from your HSA, plus any interest it may have earned. The removal must be made prior to the due date of your Federal Income Tax Return, without extensions, for the taxable year in which it was made. Excess contributions may not be excluded or deducted from your income. Excess rollover contributions must also be removed from your HSA. Similar rules cover both regular and rollover excess contributions. However, if your excess rollover contribution was made due to erroneous information given to you by the payor of the funds that make up the rollover, there will be no penalty, provided you take prompt action upon receipt of correct information. There is a penalty excise tax of 6% on excess contributions, and this tax will be imposed each year until the excess is removed from your HSA. In addition, excess rollovers are fully taxable when received and no deduction may be taken for any excess rollovers.
- VI. **Rollovers:** Rollovers must satisfy certain requirements of the Internal Revenue Code. The rules governing rollovers are complicated and adverse tax consequences can result if they are not followed exactly. You should consult your own tax counsel if you become eligible for a rollover. Rollover

contributions are not tax deductible and there is no. Rollovers and transfers are allowed from an Archer MSA or an HSA; however, HSA assets cannot be transferred to an Archer MSA. Rollovers are subject to the IRS 12 month rule.

- A. Rollovers from a health flexible spending arrangement (FSA) or a health reimbursement arrangement (HRA) from an employer is permitted only one time as long as the rollover occurs before January 1, 2012. The amount is limited to the lesser of: (1) the amount in the FSA or HRA on September 21, 2006 or (2) the amount at the time of the distribution. Rollovers are not subject to the annual contribution limit. You must maintain QHDHP coverage for 12 months following the month of the rollover in order for the rollover to not be subject to income taxes and an additional 10% tax.
- B. Rollovers from an IRA can be made from trustee-to-trustee only one time per lifetime. The amount is subject to the maximum limit established by law for the tax year in which the rollover occurs. Exception: If you convert from a self-only to a family QHDHP, you are allowed to make an additional rollover contribution. You must be covered by a QHDHP at the time of the rollover and continue coverage for 12 months after the rollover.

VII. Distributions:

A. In General

You may make withdrawals from your HSA at any time. If you make a withdrawal for a "qualified medical expense" then the withdrawal will not be subject to Federal income tax as long as the date that the qualified medical expenses are incurred is after the date the HSA is established. If the withdrawal is not for a "qualified medical expense" then the distribution must be included in your gross income for Federal income tax purposes. In addition, a withdrawal which is not for a "qualified medical expense" and which is made prior to your attainment of the age specified in Section 1811 of the Social Security Act (generally age 65), your death, your disability, or which is a refund of excess contributions will be subject to a 10% excise tax.

B. Qualified Medical Expenses

A "qualified medical expense" is an amount paid for medical care as defined in IRC § 213(d) for you, your spouse or your dependents, but only to the extent such amounts are not compensated for by insurance or otherwise. IRS Publication 502 generally describes expenses that are deemed to be for medical care within the meaning of Code Section 213(d) (these expenses include over-the-counter medications).

However, there are certain expenses that are for medical care and are listed in Publication 502 but **are not** qualified medical expenses for purposes of obtaining a tax-free withdrawal from your HSA. In particular, most premiums paid for health coverage are not qualified medical expenses. However, the following types of expenses for health care coverage are still treated as qualified medical expenses:

- 1. Any expenses for a health plan during any period of continuation of coverage pursuant to Federal law (e.g., COBRA);
- 2. Certain long-term care insurance contracts;
- 3. Health plan expenses which are incurred while receiving Federal or State unemployment compensation; and
- 4. Health insurance (other than a Medicare supplemental policy) once you have reached the age specified in Section 1811 of the Social Security Act (generally age 65).

C. Death

Upon your death, your surviving spouse may treat the HSA as his or her own HSA. If you have a non-spouse beneficiary, then the value of your HSA must be included in the income of the beneficiary. If you have no beneficiary, then the value of your HSA becomes part of your estate.

VIII. Prohibited Uses of Your HSA: Your HSA may not be used as security for a loan. If you do so, you will need to take the amount as a distribution and it must be reported as ordinary income subject to taxes. If you are younger than 65, the 10% excise tax will also apply. In addition, you may not use any portion of your HSA to purchase life insurance.

IX. Depositor's HSA Always 100% Non-Forfeitable: Your interest in your HSA is always 100% non-forfeitable.

X. Approval of HSA by the Internal Revenue Service: The HSA was established with the intention that it complies with all provisions of the Internal Revenue Code regarding Health Savings Accounts. However, the Internal Revenue Service has not made a determination that the HSA you have established meets the applicable requirements of the Internal Revenue Code. The adoption of the HSA, its qualification by the IRS, and the related tax consequences are the responsibility of you and your tax and legal advisors. The Custodian has the right to amend the HSA at any time in order to meet the requirements of the Code. The Custodian will notify you in writing of any such amendment.

XI. Prohibited Transactions: The Custodian may not engage in certain transactions relating to an HSA. These "prohibited transactions" include:

- (a) sale, exchange, or lease of any property between the HSA and an interested party,
- (b) loan of money or extension of credit between the HSA and an interested party,
- (c) furnishing of goods, services, or facilities between the HSA and an interested party,
- (d) use for the benefit of an interested party of any portion of the assets of the HSA, and
- (e) any "self-dealing" or breach of fiduciary duty by an interested party as it relates to the HSA.

An "interested party" includes you, the Depositor, your beneficiaries and any persons or entities, such as relatives, corporations and partnerships, which are connected in any substantial fashion to you. If you engage in a prohibited transaction, your HSA will lose its tax exemption and its entire value must be included in your taxable income during the year in which the prohibited transaction occurs.

XII. Custodian's Fees: The Custodian of your HSA will charge you fees based on the fee schedule in effect as of the date you executed the HSA Custodial Agreement. Upon 30 days written notice, a new fee schedule may be put into effect. These fees, plus other expenses such as brokerage costs and legal expenses, may be paid out of the assets of your HSA.

XIII. Directed Investment of Your HSA: The Custodian will invest the assets of your HSA in accordance with your written instructions, subject to any restrictions set forth in the HSA Custodial Agreement. In addition, under the law you may not invest any portion of your HSA in "collectibles," which include:

- (a) stamps or coins, other than certain U.S. gold and silver coins,
- (b) antiques,
- (c) works of art,
- (d) precious metals or gems, or
- (e) anything else specified by the IRS as a "collectible."

No guarantees can be made as to the investment return of your HSA. The amount of assets that are in your HSA at any one time will depend on: (1) the amount of contributions and withdrawals, (2) investment gains and/or losses, including interest and dividends, on your HSA investments, (3) investment expenses, such as brokerage costs, and (4) the Custodian's fees. Because an HSA is exempt from paying taxes, any earnings on amounts in your HSA will generally not be taxed unless you make a withdrawal from your HSA for anything other than to pay "qualified medical expenses."

XIV. Filing Requirement: You must file Form 8889 (or any other form designated by the IRS for HSA reporting) and attach it to Form 1040 if you (or your spouse, if married filing a joint return) had any activity on your HSA during the year. You must file the form even if your employer or your spouse's employer made contributions to your HSA.

XV. Additional Information: If you desire further information on HSAs, you should contact your personal tax advisor or the local office of the IRS.