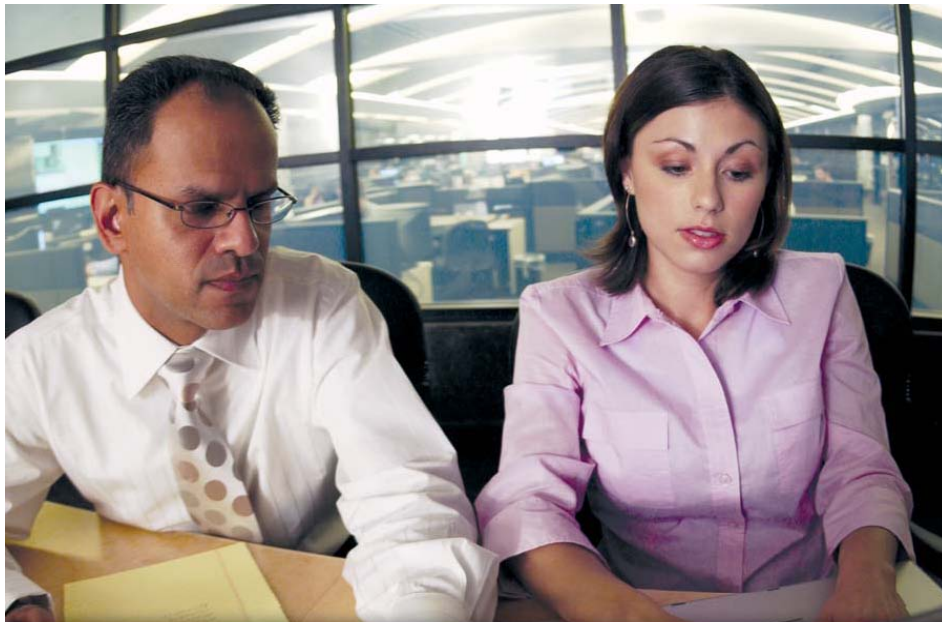


Patriot State Bank Health Savings Account Guide

How to offset healthcare expenses with tax-deferred savings



At Patriot State Bank, we believe that helping you prepare for the rising cost of health care is key to helping you develop an effective, comprehensive long-term financial plan. The Patriot State Bank Health Savings Account (HSA) provides the means to save and pay for qualified medical expenses that are incurred after you are actively enrolled in a qualified high deductible health plan (HDHP)*. Plus, an HSA gives you something else you want—freedom and control. Once enrolled in a qualified HDHP*, the funds in your Patriot State Bank Health Savings Account can be used to pay for qualified out-of-pocket medical expenses. Then, upon enrollment in Medicare, any unused funds remaining in the HSA can be used as supplemental income for retirement. See, *What are the benefits of a Health Savings Account*, to learn more. An HSA is an important part of your overall financial plan and Patriot State Bank makes it easy to get the most out of it.

What is a Health Savings Account?

If you currently have a qualified high deductible health plan, the HSA allows you to save money for current and future qualified medical expenses, incurred *after* the HSA was opened. To maximize your benefits, we encourage you to open your HSA as soon as you are actively enrolled in a qualified HDHP. The HSA works similar to an IRA, in that the money you contribute grows tax-free over time giving you a tax-advantaged way to save for qualified medical expenses.

Important note: All references to taxes relate to federal taxes; state tax implications may vary by state. Consult with your tax advisor for state tax treatment related to HSAs for the state in which you file taxes.

Are you eligible?	HSA Eligibility Requirements	
<p><i>To be eligible for the Patriot State Bank HSA, you must meet all of the requirements. To determine your eligibility, please see the box to the right. Or, go to www.irs.gov to see the IRS Publication 969.</i></p>	✓	You are covered under a qualified HDHP.*
	✓	You are not covered by another health plan that is not an HDHP.**
	✓	You are not enrolled for Medicare benefits.
	✓	You are not eligible to be claimed as a dependent on another individual's tax return.
	✓	You have HDHP coverage on the first day of the month during the month that the account is opened.

*High Deductible Health Plan: A policy with an annual deductible of at least \$1,100/individual or \$2,200/family. The maximum out-of-pocket expenses are not to exceed the annual limits defined by the IRS. See your health insurance professional to determine if your insurance plan meets qualified HDHP requirements.

**Certain exceptions may apply.

What are the benefits of a Health Savings Account?

- Save on Federal income taxes – The contributions you make are deductible, up to the HSA maximum contribution (including age 55 catch-up contribution), when determining your adjusted gross income. Account balances grow tax-free.
- Cover deductibles and qualified out-of-pocket expenses – Account balances can be used to pay for any qualified medical expense incurred after the HSA is opened. Withdrawals used to pay for qualified medical expenses are tax-free.
- Take control – You determine which qualified expenses will be paid from your HSA, how they will be paid and when.
- Benefit from no ‘use it or lose it’ restrictions – Unlike Flexible Spending Accounts, unused balances can be carried over from year-to-year and continue to grow on a tax-free basis.
- Use HSA dollars to pay COBRA premiums – Preserve your liquidity between jobs or during times of unemployment. Special tax-free withdrawals permitted.
- Purchase long-term care insurance – Use tax-deferred dollars to plan for long-term needs.
- Supplement retirement income – Once you enroll in Medicare, you may use HSA balances to pay for out-of-pocket Medicare expenses tax-free, or choose to use HSA balances for non- medical purposes by claiming the amount of the withdrawal as income for tax purposes, penalty-free.

Why choose a Patriot State Bank Health Savings Account?

- It's easy to apply. Go to your neighborhood Patriot State Bank branch office to see your Customer Service Specialist for more information.
- It's easy to use. The Patriot State Bank HSA works like a checking account. Money can be deposited into your account at any time and easily withdrawn for qualified medical expenses when needed. Use your Patriot State Bank HSA Debit MasterCard Card, Patriot State Bank Consumer Internet Banking with Bill Pay or personalized HSA checks to make payments for qualified medical expenses.
- It's easy to watch your money grow. Patriot State Bank Consumer Internet Banking with Bill Pay allows you to review your balance and transactions conveniently, make account transfers, easily track spending and pay bills.
- It's easy to save money.
 - Receive a Patriot State Bank HSA Debit MasterCard with no annual fee.
 - Make fee-free payments using Patriot State Bank's Consumer Internet Banking with Bill Pay or your Patriot State Bank HSA Debit MasterCard.
 - Receive a competitive interest rate that enables your tax-free balances to grow and earn a better return as they grow.
 - Build balances with monthly contributions.

How can I open my Health Savings Account at Patriot State Bank?

Contact your benefits plan administrator or insurance professional to ensure that you are eligible (meaning you are enrolled in a qualified HDHP) and that you completely understand how an HSA works. Then contact Patriot State Bank to establish your HSA and set up a contribution program.



Contributions

Your Patriot State Bank HSA may be funded by you (the account owner), a family member, your employer or anyone else who chooses to contribute on your behalf. Contributions are limited to the maximum allowed by law. Contributions can be made to your account by simply making a deposit or transferring money from another account. Contributions may be made until April 15 for the previous calendar year. As custodian, Patriot State Bank must report contributions in May, for the prior year on Form 5498-SA.

Account Owner or Family Member Contributions – As the account owner, you are responsible for making sure contributions made to the account do not exceed the annual limits. The contributions you and/or your family members make may be claimed as a deduction on your federal tax return regardless of income, tax filing status, employment status or whether or not you itemize tax deductions.

Employer Pre-Tax Contributions – Contributions by your employer are not included in your taxable income and are not deductible on your federal tax return, but count toward your annual contribution limits.

Excess Contributions – The account holder must remove all excess contributions and applicable interest earned prior to the tax return due date to avoid a 6% penalty tax, regardless of who made the contribution.

Trustee-to-trustee Transfers – Tax-free Trustee-to-trustee Transfers to your Patriot State Bank HSA from another HSA, from your Archer Medical Savings Account, or from your IRA (one time) are permitted and can help your savings account grow over time.

Rollover Contributions – One-time tax-free rollovers from your health FSA and HRA to your Patriot State Bank HSA are also permitted.

Health Savings Account Contribution Limits*				
Tax Year	Contribution– Limited to the Amount of the Policy's Annual Deductible up to...		Maximum Contribution Limit with Catch-up Contribution for Ages 55 or Older	
	Self-only	Family	Self-only	Family
2011*	\$3,050	\$6,150	\$4,050	\$7,150

*Limits subject to change.

Distributions

Unlimited, tax-free withdrawals may be made to pay for qualified, out-of-pocket medical expenses as they occur. Unlike Flexible Spending Arrangements (FSA), you must have the funds in your HSA before expenses can be paid. It's easy to make withdrawals from your account by using your Patriot State Bank HSA Debit MasterCard Card, Patriot State Bank Consumer Internet Banking with Bill Pay or personalized HSA checks. As custodian, Patriot State Bank must report prior-year distributions in January on Form 1099-SA. As an HSA owner, you must report HSA activity by completing and filing Form 8889 with your Federal tax return.





HSA funds can be used to cover health insurance deductibles and co-payments for medical services and certain prescriptions. HSA funds can be used to purchase over-the-counter medical-purpose drugs, long-term care insurance and to pay health insurance premiums during any period of unemployment. Please be aware that there is a 10% IRS penalty if you use your HSA funds for non-qualified medical expenses.

Questions and Answers

Do I qualify for a Health Savings Account (HSA)?

The qualifications are based on personal circumstances. Since each person's situation is unique, it is best that you review your eligibility with your insurance professional or benefits administrator. Your insurance provider will be able to help you determine if your insurance plan is qualified, how much you can contribute to your Patriot State Bank HSA, and whether your medical expenses represent qualified distributions.

What is a High Deductible Health Plan (HDHP)?

An HDHP is a medical plan that has a minimum annual deductible of at least \$1,200 for individual coverage or \$2,400 for family coverage. The annual out-of-pocket expenses cannot exceed the caps established by the IRS. See your insurance professional to determine whether or not your HDHP is approved for HSAs. These out-of-pocket expenses include deductibles, co-payments and other health-care related expenses. Generally, health insurance premiums are not qualified medical expenses, but there are a few exceptions (see your insurance professional for guidance).

What is not included in out-of-pocket expenses?

HDHP and most other insurance premiums are not eligible as an out-of-pocket reimbursable expense. Again, see your insurance professional or IRS Publication 502 for further details.

Who can make contributions to my HSA?

Once the eligibility requirements are met, you, your employer, family members or any other person can make contributions to your HSA on your behalf. However, the total contributions from all of these parties are subject to the annual contribution limits.

Can my employer open an HSA for me?

Your employer may recommend an HSA custodian, and may choose to automate contributions to your HSA to serve as an additional health care benefit of your employment, in conjunction with an employer-sponsored HDHP. However, you will be responsible for establishing your HSA and completing the documentation required to open the account.

What if the total of contributions made on my behalf exceeds the allowable contribution limit?

If the total of the contributions from yourself, your employer, your family members or others exceed the allowable contribution limit for the year, you will be subject to an excess contribution tax until the excess is corrected. It is your responsibility to remove the excess contributions and any interest earned prior to filing your federal income taxes (including extensions).

Do the same federal tax rules apply for my state tax return?

See your tax advisor or benefits plan administrator to determine how state tax rules apply to your HSA contributions and distributions. Rules may vary by state.

How do I know what my contribution limits are if my HDHP is established in the middle of the year?

Even if you establish your HSA account during the year, you are still eligible to contribute up to the annual maximum contribution. For example, if your HDHP was established on June 1, and your maximum contribution limit was \$3,000 (assuming the coverage continues for the rest of the year), you can contribute the entire \$3,000 to your account.

Can I contribute to an HSA if I have another health plan that is not a qualified HDHP?

No. However, there are a few exceptions such as: workman's compensation; insurance for a specified disease or illness; or an insurance policy paying a fixed amount for hospitalization, accident insurance, disability insurance, dental care, vision care or long-term care. See your benefits plan administrator or insurance professional for guidelines.

Are rollover contributions permitted?

HSA-to-HSA rollovers are permitted. Also, one-time FSA-to-HSA and HRA-to-HSA rollovers are permitted. We recommend that you see your tax advisor to determine how state rules apply to rollover deposits. A trustee-to-trustee transfer may be more appropriate for converting your Archer MSA or IRA to an HSA.

How do I keep track of my withdrawals from my Patriot State Bank HSA?

As the account holder, you are responsible for maintaining receipts and accurate financial records for tax purposes. Your monthly statement, which includes images of your paid checks and HSA transaction information, should be retained along with your paid medical receipts, as proof of payment for the IRS. After you enroll in Patriot State Bank Consumer Internet Banking with Bill Pay, you will also be able to view transactions online.

What are the beneficiary rules?

If your spouse is designated as the beneficiary of the account, upon death, the HSA becomes the HSA of your spouse. The surviving spouse is subject to income tax only if the distributions from the HSA are not used for qualified medical expenses. Distributions to a non-spouse beneficiary are treated as ordinary income to the recipient upon distribution.

Once I have enrolled in an HDHP and have determined that I am eligible for an HSA, what is my next step?

See your Patriot State Bank Customer Service Specialist at your local branch office to apply for an HSA.

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