

**Health Savings Account  
Agreement and Disclosure Statement**

**THIS DOCUMENT MAY ONLY BE USED WITH A SOUTHWEST SECURITIES ACCOUNT.**

Form **5305-C**  
(August 2004)  
Department of the Treasury  
Internal Revenue Service

**Health Savings Custodial Account**  
(Under Section 223(a) of the Internal Revenue Code)

**HOW TO GET STARTED TO ESTABLISH A SOUTHWEST SECURITIES HEALTH SAVINGS ACCOUNT (HSA)**

- Complete and sign the **Health Savings Account Application**.<sup>1</sup> All beneficiary information including Social Security numbers should be completed.
- Submit the completed **Health Savings Account Application**<sup>1</sup> to your Account Executive
- Enclose a check made payable to Southwest Securities for the initial Account contribution, if applicable. Your check should reference which tax year the contribution should be credited.

**1) CUSTODIAL FEES FOR STANDARD ASSETS**

- Initial Set Up or Acceptance Fee **No Charge**
- Annual Maintenance Fee **No Charge**
- Spousal Annual Maintenance Fee **No Charge**
- Non-Medical Reimbursement Distribution Fee **No Charge**
- Transfer or Termination Fee **\$25.00**

The Custodial Fee Schedule For Standard Assets will apply to any Southwest Securities IRA Account which is invested in widely held or publicly traded securities, such as Stocks, Bonds, Mutual Funds and/or Fixed income instruments.

**Article I**

- 1.01 The custodian 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 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.

**Article II**

- 2.01 For calendar year 2004, the maximum annual contribution limit for an account owner with single coverage is the lesser of the amount of the deductible under the HDHP but not more than \$2,650. For calendar year 2004, the maximum annual contribution limit for an account owner with family coverage is the lesser of the amount of the deductible under the HDHP but not more than \$5,250. These limits are subject to cost-of-living adjustments after 2004. Eligibility and contribution limits are determined on a month-to-month basis.
- 2.02 Contributions to Archer MSA's or other HSAs count toward the maximum annual contribution limit to this HSA.
- 2.03 For calendar year 2004, an additional \$500 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 \$600 in 2005, \$700 in 2006, \$800 in 2007, \$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 custodian 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 a net income attributable to such excess contribution.

**Article IV**

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

**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 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 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.

such as legal and accounting fees, and any taxes of any kind whatsoever that may be levied or assessed with respect to such account.

#### Article VIII

- 8.01 The account owner agrees to provide the custodian with information necessary for the custodian to prepare any report or return required by the IRS.
- 8.02 The custodian agrees to prepare and submit any report or return as prescribed by the IRS.

#### 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 **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, if the Account Beneficiary or Designated Beneficiary does not object in writing within 60 days after the mailing of such accounting statement.
- 11.03 **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 and requests a distribution or transfer of the balance in the account.

#### 11.04 Resignations and Removal of Custodian:

- (a) The Custodian may resign at any time by giving at least 30 days written notice to the Account Beneficiary. The Custodian may resign and appoint a successor custodian or custodian to serve under this agreement or under another governing instrument selected by the successor custodian or custodian by giving the Account Beneficiary written notice at least 30 days prior to the effective date of such resignation and appointment, which notice shall also include a copy of such other governing instrument, if applicable, and the related disclosure statement. The Account Beneficiary shall then have 30 days from the date of such notice to either request a complete distribution of the account balance or designate a different successor custodian or custodian. If the Account Beneficiary does not request distribution of the account or designate a different successor within such 30 days, the Account Beneficiary shall be deemed to have consented to the appointment of the successor custodian or custodian and the terms of any new governing instrument, and neither the Account Beneficiary nor the successor shall be required to execute any written document to complete the transfer of the account to the successor custodian or custodian. The successor custodian or custodian may rely on any information, including beneficiary designations, previously provided by the Account Beneficiary. The Custodian may, in its sole discretion, resign as Custodian of this HSA in accordance with the first sentence of this paragraph 7.04(a), and in lieu of appointing a successor custodian or custodian, distribute the assets of the account to the Account Beneficiary (or to the Designated Beneficiary if the Account Beneficiary has died). The Custodian shall not be responsible for any tax consequences applicable to such distribution.
- (b) The Account Beneficiary may at any time remove the Custodian and replace the Custodian with a successor custodian or custodian of the Account Beneficiary's choice by giving 30 days written notice to the Custodian. In such event, the Custodian shall then deliver the assets of the account as directed by the Account Beneficiary. However, the Custodian may retain a portion of the assets of the HSA as a reserve for payment of any anticipated remaining fees and expenses, and shall pay over any remainder of this reserve to the successor custodian or custodian upon satisfaction of such fees and expenses.

#### 11.05 Custodian's Fees and Expenses:

- (a) The Account Beneficiary agrees to pay the Custodian any and all fees specified in the Custodian's current published fee schedule for establishing and maintaining this HSA, including any fees for distributions from, transfers from, and terminations of this HSA. The Custodian may change its fee schedule at any time by giving the Account Beneficiary 30 days prior written notice.
- (b) The Account Beneficiary agrees to pay any expenses incurred by the Custodian in the performance of its duties in connection with the account. Such expenses include, but are not limited to, administrative expenses,

- (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, but the Account 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 Custodial Funds, 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.

- 11.06 **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.

- 11.07 **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 medical expenses.

- 11.08 **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.

#### Article XII-Self-Directed HSA Provisions

- 12.01 **Investment of Contributions:** 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 account and earnings thereon in investments acceptable to the Custodian, which may include marketable securities traded on a recognized exchange or "over the counter" (excluding any securities issued by the Custodian), covered call options, certificates of deposit, and other investments to which the Custodian consents, in such amounts as are specifically selected and specified by the Account 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, 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 may, but need not, establish programs under which cash deposits in excess of a minimum set by it will be periodically and automatically invested in interest-bearing investment funds. The Custodian shall have no duty other than to follow the written investment directions of the Account 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.

- 12.02 **Registration:** All assets of an account shall be registered in the name of the Custodian or of a suitable nominee. The same nominee may be used with respect to assets of other investors whether or not held under agreements similar to this one or in any capacity whatsoever. However, each Account Beneficiary's account shall be separate and distinct; a separate account therefore shall be maintained by the Custodian, and the assets thereof shall be

- held by the Custodian in individual or bulk segregation either in the Custodian's vaults or in depositories approved by the Securities and Exchange Commission under the Securities Exchange Act of 1934.
- 12.03 **Investment Advisor:** The Account Beneficiary may appoint an Investment Advisor, qualified under Section 3(38) of the Employee Retirement Income Security Act of 1974 (ERISA), to direct the investment of his HSA. The Account 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 that the Investment Advisor's appointment has been terminated. The Custodian 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 shall not be liable for any investment losses sustained by the Account Beneficiary.
- 12.04 **No Investment Advice:** The Custodian does not assume any responsibility for rendering advice with respect to the investment and reinvestment of Account Beneficiary's account and shall not be liable for any loss which results from Account Beneficiary's exercise of control over his account. The Custodian and Account Beneficiary may specifically agree in writing that the Custodian shall render such advice, but the Account Beneficiary shall still have and exercise exclusive responsibility for control over the investment of the assets of his account, and the Custodian shall not have any duty to question his investment directives.
- 12.05 **Prohibited Transactions:** Notwithstanding anything contained herein to the contrary, the Custodian shall not lend any part of the corpus or income of the account to; pay any compensation for personal services rendered to the account to; make any part of its services available on a preferential basis to; acquire for the account any property, other than cash, from; or sell any property to, any Account Beneficiary, any member of a Account Beneficiary's family, or a corporation controlled by any Account Beneficiary through the ownership, directly or indirectly, of 50 percent or more of the total combined voting power of all classes of stock entitled to vote, or of 50 percent or more of the total value of shares of all classes of stock of such corporation.
- 12.06 **Unrelated Business Income Tax:** If the Account Beneficiary directs investment of the account in any investment which results in unrelated business taxable income, it shall be the responsibility of the Account Beneficiary to so advise the Custodian and to provide the Custodian with all information necessary to prepare and file any required returns or reports for the account. As the Custodian may deem necessary, and at the Account Beneficiary's expense, the Custodian may request a taxpayer identification number for the account, file any returns, reports, and applications for extension, and pay any taxes or estimated taxes owed with respect to the account. The Custodian may retain suitable accountants, attorneys, or other agents to assist it in performing such responsibilities.
- 12.07 **Disclosures and Voting:** The Custodian shall deliver, or cause to be executed and delivered, to Account 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.
- 12.08 **Miscellaneous Expenses:** In addition to those expenses set out in Article VII, section 7.05 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.
- 12.09 **Non-bank Custodian Provision:** If the Custodian is a non-bank Custodian, the Account Beneficiary shall substitute another trustee or custodian in place of the Custodian upon receipt of notice from the Commissioner of the Internal Revenue Service or his delegate that such substitution is required because the Custodian has failed to comply with the requirements of Income Tax Regulations Section 1.408-2(e), or is not keeping such records, making such returns, or rendering such statements as are required by applicable law, regulations, or other rulings. The successor trustee or custodian shall be a bank, insured credit union, or other person satisfactory to the Secretary of the Treasury pursuant to Section 408(a)(2) of the Code. Upon receipt by the Custodian of written acceptance by its successor of such successor's appointment, Custodian shall transfer and pay over to such successor the assets of the account (less amounts retained pursuant to Article VIII, Section 8.04 of the Trust Agreement) and all records (or copies thereof) of the Custodian pertaining thereto, provided that the successor trustee or custodian agrees not to dispose of any such records without the Custodian's consent.
- 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 a year, 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 entitled to benefits under 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 Account (FSA):** A flexible spending plan described in Section 125 IRC.
- 13.09 **Health Savings Account (HSA):** A health savings account described in Section 223 IRC.
- 13.10 **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. In the case of any other coverage (family coverage), the annual deductible cannot be less than \$2,000. 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 for self-only coverage, and \$10,000 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.
- 13.11 **IRC:** Refers to the Internal Revenue Code, as amended.
- 13.12 **Medical Care:** Medical Care includes amounts paid for the types of medical care described in Section 213(d) IRC.
- 13.13 **Permitted insurance:** Permitted insurance shall include the types of insurance described in Section 223(c)(3) IRC.
- 13.14 **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).
- 13.15 **Custodial account:** The term Custodial account means the account established under the terms of this HSA Agreement.
- 13.16 **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 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.

## 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 2004, an HDHP for self-only coverage has a minimum annual deductible of \$1,000 and an annual out-of-pocket maximum (deductibles, co-payments and other amounts, but not premiums) of \$5,000. For calendar year 2004, an HDHP for family coverage has a minimum annual deductible of \$2,000 and an annual out-of-pocket maximum of \$10,000. These limits are subject to cost-of-living adjustments after 2004.

**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. See Notice 2004-25, 2004-15 I.R.B. 727 for transition relief for distributions for qualified medical expenses incurred in calendar year 2004.

**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 mistake 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 contribution from another HSA or Archer MSA and the Custodian accepts non-cash rollover contributions.
- 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.
- 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 non-forfeitable 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:

- Is covered under a high deductible health plan (HDHP) as of the first day of such month;
- 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;
- Is not entitled to benefits under Medicare; and
- 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:

- Coverage for any benefit provided by "permitted insurance" (See below for definition); and
- 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, as indexed for inflation. In the case of any other coverage (family coverage), the annual deductible cannot be less than \$2,000, as indexed for inflation.

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 for self-only coverage, and \$10,000 for family coverage, as indexed for inflation. 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 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" (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. In addition, the plan's annual deductible for out-of-network services is not taken into account in determining the annual contribution limit. Rather, the annual contribution limit is determined by reference to the deductible for services within the network.

### 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 another 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 health plan during any period of continuation coverage required under Federal law (COBRA);
- A qualified long-term care insurance contract (as defined in section 7702B(b) IRC); or
- Health plans 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:

- Medicare Part A
- Medicare Part B
- Medicare HMO
- Employee's share of employer-sponsored health insurance
- 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:

- The diagnosis, cure, mitigation, treatment, or prevention of disease, or for the purpose of affecting any structure or function of the body;
- For transportation primarily for and essential to medical care referred to above; or
- 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 the IRS support for the calendar year from the taxpayer and is not being claimed as a dependent on another taxpayer's return:

- Son or daughter, or a descendant of either;
- Step son or stepdaughter;
- Brother, sister, stepbrother, or stepsister;
- Father or mother, or ancestor of either;
- Step father or stepmother;
- Son or daughter of a brother or sister;
- Brother or sister of the father or mother;
- Son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law; or
- 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 a 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 a family member 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 family member are treated as if made by the Account Beneficiary. Regular HSA contributions are contributions other than rollover contributions from another HSA or Archer MSA or transfers from another HSA.

#### Contribution limits -

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 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 a family member. 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 reached a age 65, further contributions, including catch-up contributions, are no longer allowed. The monthly limit for such individual beginning the first month such individual is entitled to Medicare benefits (currently age 65) shall be zero.

#### Maximum Dollar Limit -

For an eligible individual with self-only coverage, the maximum annual dollar limit is \$2,600 (the current indexed limit for the \$2,250 limit under section 223(b)(2)(A)(ii)). For an eligible individual with family coverage, the maximum annual dollar limit is \$5,150 (the current indexed limit for the \$4,500 limit under section 223(b)(2)(B)(ii)). These dollar limits are adjusted for cost-of-living increases, rounded to the nearest multiple of \$50.

#### 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 reached age 65, further contributions, including catch-up contributions, are no longer allowed.

#### Married Individuals -

Jointly owned HSAs are not permitted. An HSA is established by or on behalf of an individual.

In the case of 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 contribution limit for the spouses is the lowest deductible, 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.

**Example #1:** Harry and Wilma are married. Harry is 58 and Wilma is 53. Harry and Wilma both have family coverage under separate HDHPs. Harry has a \$3,000 deductible under his HDHP and Wilma has a \$2,000 deductible under her HDHP. Harry and Wilma are treated as covered under the plan with the \$2,000 deductible. Harry can contribute \$1,500 to an HSA (1/2 of the deductible of \$2,000 + \$500 catch-up contribution) and Wilma can contribute \$1,000 to an HSA (unless they agree to a different division).

**Example #2:** Harold and Wanda are married. Harold is 35 and Wanda is 33. Harold and Wanda each have a self-only HDHP. Harold has a \$1,000 deductible under his HDHP and Wanda has a \$1,500 deductible under her HDHP. Harold can contribute \$1,000 to an HSA and Wanda can contribute \$1,500 to an HSA.

**Example #3:** Harley and Heloise are married. Harley is 57 and Heloise is 56. Harley has self-only coverage under a HDHP with a \$1,000 deductible and Heloise has family coverage under a separate HDHP with a \$5,000 deductible. Since one of the spouses has family coverage, they are both treated as having family coverage for purposes of determining the annual contribution limit. Harley can contribute \$3,000 to an HSA (1/2 of the deductible of \$5,000 + \$500 catch-up). Heloise can contribute \$3,000 to an HSA (1/2 of the deductible of \$5,000 + \$500 catch-up). Harley and Heloise could agree on a different division of the \$5,000.

#### 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, not including extensions. Contributions for the taxable year can be made in one or more payments. Although the annual contribution limit is determined monthly, the maximum contribution may be made on the first day of the year.

#### Deduction Permitted if Contribution made by Eligible Individual or Family Member -

If an eligible individual makes a contribution to an HSA, or a family member 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 monthly contribution limit. Contributions made by an employer within the contribution limits of the HSA plan are treated as employer-provided coverage for medical expenses and are excluded from income.

#### Limitation on Deductions -

The maximum deduction permitted for an individual for a taxable year for self-only coverage is 100% of the deductible amount under the high deductible health plan not to exceed the maximum dollar limit plus the catch-up, if eligible. The maximum deduction for family coverage is 100% of the deductible under the high deductible health plans not to exceed the maximum dollar limit plus the catch-up, if eligible.

HSA contributions are deductible whether or not the eligible individual itemizes 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.

The annual contribution limit is the sum of the limits determined separately for each month based on the individual's status and health plan coverage as of the first day of the month. The formula for determining the monthly permitted contribution is the lesser of the annual deductible amount or the deductible limit of the HDHP divided by twelve.

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. 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 3.5% 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, 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% excise tax 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.

## Transfers

A direct transfer of all or a portion of funds is permitted from this HSA to another HSA or from another HSA 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.

## 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 the 10% additional excise 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% excise tax, unless another exception applies.

Exceptions to the 10% excise 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.

### 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 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 includable 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 includable 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, unless the distribution is received due to death; disability; a qualifying rollover distribution; or the timely withdrawal of the principal amount of an excess contribution.

### 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 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 includable 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.



Southwest Securities, Inc. and/or Broker/Dealers for which it clears  
Southwest Securities, Inc. Member NYSE/FINRA/SIPC

New Account  
 Update

## Health Savings Account Application

### 1. Funding Information.

- Regular HSA Contribution for tax year: \_\_\_\_\_  HSA Rollover (Must also complete HSA Rollover Form)  
 Transfer from another HSA (Must also complete Account Transfer Form)

### 2. Account Title.

Full Name of Applicant (First, Middle, Last)		Social Security #	Date of Birth	
Home Address (P.O. Box unacceptable)	City	State/Province	Country	Zip
Mailing Address (P.O. Box unacceptable)	City	State/Province	Country	Zip
Home Phone Number	Fax Number	Email Address		

### 3. Account Information.

Initial Contribution \$: \_\_\_\_\_ Contributions to be made by:  HSA Owner;  Employer;  Another Individual  
If employer funded, name of employer: \_\_\_\_\_

Type of Account:

- Regular HSA for tax year \_\_\_\_\_  Rollover from another HSA or Archer MSA  
 Surviving Spouse Assumption  Transfer from another HSA. Transfer received from: \_\_\_\_\_

### 4. Verification Information.

#### IMPORTANT INFORMATION ABOUT OPENING A NEW ACCOUNT

To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each person who opens an account. What this means to you: When you open an account, we will require your name, address, date of birth and other information that will allow us to identify you. We may also ask to see your driver's license or other identifying documents.

#### Identification Provided:

#### For Individuals:

- Driver's License  Passport/Visa  Other \_\_\_\_\_  
Issuer: \_\_\_\_\_ ID Number: \_\_\_\_\_  
Date of Issuance (If applicable): \_\_\_\_\_ Date of Expiration: \_\_\_\_\_

### 5. Client Profile.

Marital Status:  Single  Married  Divorced  Widowed Number of Dependents: \_\_\_\_\_

Citizenship Status:  U.S. Citizen  Resident Alien \*Note: Non-Resident Aliens are NOT permitted to open IRA Accounts.

**Employment Information:** (Please specify if unemployed, retired, homemaker, or student. If self-employed, please specify industry.)

Employer (If self-employed, please specify name of business.)	Position	Business Telephone		
Employer's Address	City	State/Province	Country	Zip

#### Affiliations/Disclosures:

Yes  No Are you or your spouse an employee of or affiliated with a securities firm, exchange or any of its affiliated companies?  
(If yes, please specify the company name and address to which duplicate statements and confirmations should be sent.)

Yes  No Are you or your spouse a director, officer, or 10% shareholder of any publicly traded company?  
(If yes, please specify company name & symbol.)

Yes  No Does any other person have Trading Authorization over this account? If yes, please specify name.  
(We must have a copy of the agreement conferring authority, their name, relationship to you and their investment experience.)

Yes  No Are you or anyone with an interest in this account either: (1) a senior military, governmental, or political official in a non-U.S. country, or (2) closely associated with an immediate family member of such an official? (If Yes, identify the name of the official, office held, and county.)

**Credit References:**

Reference 1: \_\_\_\_\_ Reference 2: \_\_\_\_\_ Reference 3: \_\_\_\_\_

**Investment Objectives (You may rank two objectives):**

- Capital Preservation:** Preserving the value of your existing assets by investing in securities with a smaller degree of risk of loss of principal. May include investment in government bonds or certificates of deposit.
- Income:** Generating current income by investing in securities with a lower degree of risk of loss of principal. May include investing in investment grade corporate bonds, bond funds or unit investment trusts.
- Growth:** Generating capital appreciation by investing in securities with a higher degree of volatility and risk of loss of principal. May include investing in stocks or mutual funds.
- Speculation:** Trading volatile securities with a higher than average possibility of loss of principal with the hope of achieving commensurate gains. May include investing in low priced securities, options, non-rated bonds or non-investment grade bonds.

What is the source of funds for this account?  Income for Earnings  Investment Proceeds  Gift  Sale of Business  Inheritance  
 Pension/IRA/Retirement Savings  Spouse/Parent  Lottery/Gaming  Insurance Proceeds  Legal Settlement  Other (If other, please explain:)

**Financial Information:**

Investment Experience (# of Years)	Estimated Annual Income	Estimated Net Worth (Exclusive of Home)	Estimated Liquid Net Worth (Cash, Securities, etc.)	Tax Bracket
<input type="checkbox"/> Stocks _____ <input type="checkbox"/> Bonds _____ <input type="checkbox"/> Options _____ <input type="checkbox"/> Commodities _____ <input type="checkbox"/> Futures _____ <input checked="" type="checkbox"/> Other _____	<input type="checkbox"/> Under \$25,000 <input type="checkbox"/> \$25,000-\$49,999 <input type="checkbox"/> \$50,000-\$99,999 <input type="checkbox"/> \$100,000-\$249,999 <input type="checkbox"/> \$250,000-\$499,999 <input type="checkbox"/> \$500,000-\$999,999 <input type="checkbox"/> Over \$1,000,000	<input type="checkbox"/> Under \$50,000 <input type="checkbox"/> \$50,000-\$99,999 <input type="checkbox"/> \$100,000-\$249,999 <input type="checkbox"/> \$250,000-\$499,999 <input type="checkbox"/> \$500,000-\$999,999 <input type="checkbox"/> Over \$1,000,000	<input type="checkbox"/> Under \$50,000 <input type="checkbox"/> \$50,000-\$99,999 <input type="checkbox"/> \$100,000-\$249,999 <input type="checkbox"/> \$250,000-\$499,999 <input type="checkbox"/> \$500,000-\$999,999 <input type="checkbox"/> Over \$1,000,000	<input type="checkbox"/> 10% <input type="checkbox"/> 15% <input type="checkbox"/> 25% <input type="checkbox"/> 28% <input type="checkbox"/> 33% <input type="checkbox"/> 35%

**6. Beneficiary Designation.**

Name and Address	Birth Date	Social Security #*	Relationship	Beneficiary Type*	Share %*
				<input type="checkbox"/> Primary <input type="checkbox"/> Contingent	_____%
				<input type="checkbox"/> Primary <input type="checkbox"/> Contingent	_____%
				<input type="checkbox"/> Primary <input type="checkbox"/> Contingent	_____%
				<input type="checkbox"/> Primary <input type="checkbox"/> Contingent	_____%

**\*Note:** Beneficiaries must have a social security number. In the event of your death, the Primary Beneficiaries will receive the proceeds of your HSA in equal shares or in the specified Share %, if indicated. If no Primary Beneficiary survives you, the Contingent Beneficiaries will receive the proceeds of your IRA in equal shares or in the specified Share %, if indicated. If the Beneficiary Type box is not checked for a beneficiary, the beneficiary will be deemed to be a Primary Beneficiary. If no beneficiary is listed, the balance in the account shall be paid to your estate. The total % of all Primary Beneficiaries must equal 100%; the total % of all Contingent Beneficiaries, if designated should also equal 100%.

**Additional Guidance**

It is in your best interest to seek the guidance of your tax or legal professional before completing this form because of the potentially significant financial and estate planning consequences associated with beneficiaries naming successor IRA beneficiaries. Please see the Death Distribution information contained within your IRA adoption agreement and disclosure. For more information, refer to Internal Revenue Service (IRS) Publication 590 or visit the IRS Website at [www.irs.gov](http://www.irs.gov).

**7. Spousal Consent. (Required if participant's spouse is not designated as the sole primary beneficiary.)**

As the spouse of the participant in the above-named Plan, I acknowledge that I understand my rights to be named the Primary Beneficiary of my spouse's account balance. I hereby consent to the designation made by my spouse to have the death benefit paid to the beneficiary(ies) named on my spouse's most

current Beneficiary Designation instead of to me. I further acknowledge that I understand that the effect of my consent may be to forfeit benefits which I would be entitled to receive upon my spouse's death; that my spouse may not name a non-spouse beneficiary unless I consent to it; that the trustees may or may not permit me to revoke my consent to waiver at a later date; and that my spouse may not change beneficiary(ies) to anyone other than myself without my consent.

**X** \_\_\_\_\_  
 Spouse's Signature (Required if not sole primary beneficiary.) Date

**8. Account Instructions.**

**Cash Investment: (CHECK ONLY ONE BELOW. IF YOU DO NOT MAKE A SELECTION, YOUR FUNDS WILL BE INVESTED IN THE DREYFUS FUNDS GENERAL MONEY MARKET FUNDS, CLASS B SHARES.)**

- Dreyfus Funds**
- General Money Market Funds, Class B Shares
  - General Government Securities Money Market Fund, Class B Shares
  - General Municipal Money Market Fund, Class B Shares
  - Bank Insured Deposit (FDIC Insured deposit account)

- Federated Funds**
- Florida Municipal Cash Trust
  - Minnesota Municipal Cash Trust
  - California Municipal Cash Trust
  - NY Municipal Trust

For new accounts, if no selection of a money fund is made, your account will sweep cash balances to the Dreyfus General Money Market Fund. For existing accounts, please notify your broker if you wish to sweep cash balances to the Dreyfus General Money Market Fund, the Bank Insured Deposit or other selection. Accounts eligible to sweep to Bank Insured Deposit are typically those where the beneficial owner is a person and all required customer identification information is on file. If your account is ineligible it will be set to sweep to Credit Interest (CIP) or to a selected money market fund. The Bank Insured Deposit is a program administered by Liquid Insured Deposits ("LIDs"), which involves a series of FDIC-insured bank accounts maintained at various participant banks, including Southwest Securities FSB, Dallas, Texas, an affiliate of SWST. Bank deposits are generally insured up to \$250,000 per depositor, while your IRA and other qualifying self-directed retirement funds on deposit are separately insured up to \$250,000. Balances in Bank Insured Deposit up to \$2.5 million may be covered depending on the number of participant banks in the program. Account balances in excess of the combined coverage limits of the participant banks will be swept by SWST either to the CIP account or to a money market fund, dependent on the type of account. A list of participant banks is available at [www.swst.com](http://www.swst.com). Deposits you may have directly placed with any participant bank should be taken into account when assessing your FDIC coverage. If you have a deposit with one of the participant banks that is separate from a balance in the Bank Insured Deposit, please notify your broker if the combined deposits are in excess of \$250,000. I acknowledge that I am aware that if I elect or otherwise have cash swept to the Bank Insured Deposit, the LIDs Terms and Conditions document will be mailed to me. Information regarding FDIC coverage is available at [www.fdic.gov](http://www.fdic.gov). Cash balances invested in the Bank Insured Deposit are not covered by SIPC or excess-SIPC coverage. Please consult your broker, as certain types of accounts, including corporations, partnerships and employee benefit Plans may not be eligible to invest in the Bank Insured Deposit. Your broker may receive a fee with respect to the Bank Insured Deposits. For more information concerning your cash account options, please contact your broker. For complete sweep account disclosures please see our Customer Information Brochure.

**9. Option Account Agreement. (Please read, fill out and sign the following if you wish to trade options.)**

Investment Objectives (See definitions above)	Option Activity Has Been	Trade Frequency	Trading Occurred In
<input type="checkbox"/> Income <input type="checkbox"/> Speculation	<input type="checkbox"/> No Activity <input type="checkbox"/> Buying <input type="checkbox"/> Writing <input type="checkbox"/> Uncovered (Sales)	<input type="checkbox"/> No Trading <input type="checkbox"/> Infrequent <input type="checkbox"/> Moderate <input type="checkbox"/> Active	<input type="checkbox"/> Cash <input type="checkbox"/> Margin <input type="checkbox"/> Both <input type="checkbox"/> Neither

- Option Strategy Levels: (Check the strategy level you wish to employ.)**
- Level 1: Covered Call Writing – Writing calls fully covered by underlying stock or security convertible into underlying stock or writing puts fully covered by cash.
  - Level 2: Level 1 plus buying calls and/or puts.

By signing below, I acknowledge that I have received a copy of the Southwest Securities, Inc. ("SWST") Option Account Agreement Section of the Customer Information Brochure and that I have read, understand and agree to be bound by the terms. I feel that I have sufficient knowledge to invest in options and I represent that I will maintain extra awareness due to the short life and price volatility of options. I REPRESENT THAT I AM CAPABLE OF EVALUATING, CARRYING AND BEARING THE FINANCIAL RISKS AND HAZARDS OF THE OPTION STRATEGIES THAT I HAVE REQUESTED. I further acknowledge that I have read and understand the pre-dispute arbitration clause located on page 7, paragraph 35 of the Cash Account Agreement Section of the Customer Information Brochure and agree to resolve any disputes arising out of my account by arbitration.

**X** \_\_\_\_\_  
 Applicant's Signature Date

**10. Account Agreement and Special Instructions. (Please read and sign.)**

You hereby request that Your Broker maintain a Brokerage Account in the name(s) listed on this Application. You acknowledge that you have received, read and understood the SWS Cash Account Agreement Section of the Customer Information Brochure and you agree to be bound by the terms and conditions

of the Agreement that apply to your Brokerage Account, as amended and that you will contact Your Broker regarding any questions that may relate to your account.

**Under rule 14b-1(c) of the Securities Exchange Act, a broker is required to disclose to an issuer the name, address, and securities positions of our customers who are beneficial owners of that issuer's securities unless the customer objects. If you object to the disclosure of such information, please check box:**

By signing this Application, you confirm your intention to reinvest cash credit balances held by SWS in your name, and you further confirm that this cash credit balance is being maintained in your account solely for the purpose of reinvestment. You acknowledge your understanding that cash balances of up to \$250,000 are protected by the Securities Investor Protection Corporation (SIPC), but SIPC coverage is not available for funds maintained solely for the purpose of earning interest.

"Power of Attorney" not related to limited trading authorization will be accepted if it complies with the POA standards established by Southwest Securities, Inc.

"We do not process mistake of fact transactions as the IRS has not provided reporting guidelines for this type of transaction"

**Certification of Taxpayer ID Number (Substitute W-9):** Under penalty of perjury, you certify that (1) the number shown on this form is your correct taxpayer identification number, and (2) you are not subject to backup withholding because (a) you are exempt from backup withholding, or (b) you have not been notified by the Internal Revenue Service (IRS) that you are subject to backup withholding as a result of a failure to report all interest or dividends, or (c) the IRS has notified you that you are no longer subject to backup withholding (does not apply to real estate transactions, mortgage interest paid, the acquisition or abandonment of secured property, contributions to an individual retirement arrangement (IRA), and payments other than interest and dividends). You understand that you must cross out item (2) above if you have been notified by the IRS that you are currently subject to backup withholding because of underreporting interest or dividends on your tax return.

Under penalties of perjury, I certify that the above information (including my social security number) is correct. I hereby agree to participate in the IRA offered by the Custodian. I acknowledge receipt of a copy of the plan document under which this IRA is established and a copy of the Disclosure Statement with respect to this IRA. I direct that all benefits upon my death be paid as indicated above. In the event that this is a rollover contribution, the undersigned hereby irrevocably elects, pursuant to the requirements of Section 1.402(a)(5)-IT of the IRS regulations, to treat this contribution as a rollover contribution. The Custodian of this account is Southwest Securities, Inc. Notice of revocation must be delivered or mailed to Southwest Securities, Inc. / 1201 Elm Street, Suite 3500 / Dallas, TX 75270 / Phone #: (214) 859-1800.

In consideration of the firm accepting an account for me/us, I/We ("I") acknowledge that I have read, understand and agree to be bound by the SWS Cash Account Terms that I acknowledge receiving at the time the account was opened. **I further acknowledge that I have read and understand the pre-dispute arbitration clause located on page 7, paragraph 34 of the Cash Account Agreement Section of the Customer Information Brochure and agree to resolve any disputes arising out of my account by arbitration.** I certify that the foregoing client information is accurate and I am aware that the information is relied on by the broker in servicing my account. If I experience a material change in circumstances, I will provide my broker with an updated application.

**X** \_\_\_\_\_  
Applicant's Signature Date

\_\_\_\_\_  
Applicant's Printed Name

**FOR BROKER USE ONLY**

I have received this application and believe the IRA Account is suitable for:  Level 1  Level 2  None

Characteristics and Risks of Standardized Options Delivered: \_\_\_\_\_/\_\_\_\_\_/\_\_\_\_\_

Copies of all Written Agreements Delivered: \_\_\_\_\_/\_\_\_\_\_/\_\_\_\_\_

Customer Information Brochure Delivered: \_\_\_\_\_/\_\_\_\_\_/\_\_\_\_\_

Privacy Policy Delivered: \_\_\_\_\_/\_\_\_\_\_/\_\_\_\_\_

**X** \_\_\_\_\_  
Principal's Signature Date

Account #: \_\_\_\_\_ SSN: \_\_\_\_\_

Verify receipt of original: \_\_\_\_\_

Office #: \_\_\_\_\_ Rep #: \_\_\_\_\_

\_\_\_\_\_  
Principal's Printed Name

**X** \_\_\_\_\_  
Registered Option Principal Signature Date

**X** \_\_\_\_\_  
Investment Representative's Signature Date

\_\_\_\_\_  
Registered Option Principal Name

\_\_\_\_\_  
Investment Representative's Printed Name

**X** \_\_\_\_\_  
Authorized Signature of Custodian Date

\_\_\_\_\_  
Authorized Printed Name of Custodian