

HDHP/HSA Frequently Asked Questions For Retirees and Inactive Participants

Contributions to your HSA

Q: Can I transfer funds from an IRA into my HSA without penalties?

A: The law permits a one time trustee to trustee transfer of IRA funds to an HSA. Amounts rolled over from an IRA to an HSA count toward the HSA contribution limit for the year in which you make the transfer.

Q: If I transfer money from my HSA with a previous employer into my HSA with Bank of New York Mellon (BNY Mellon) through Progress Energy, will the amount I transfer count toward the annual maximum contribution limit?

A: No. Rollovers from another HSA or an Archer MSA are not subject to the annual contribution limits.

Q: Can I participate in another HDHP and make contributions to a Progress Energy-sponsored HSA with BNY Mellon?

A: You must participate in Progress Energy's HDHP in order to establish an HSA with BNY Mellon through Progress Energy. However, once you have established an HSA, you can make additional contributions as long as you are participating in an HDHP (either through Progress Energy or another employer). If you participate in an HDHP other than the one offered by Progress Energy, you will not be eligible for any contributions by Progress Energy (referred to as "seed money" in other communications).

Q: Will I be able to change the amount of my payroll deduction deposits to my HSA during the year, or is the amount locked in for the year as of January 1?

A: You may change the amount you contribute from your pension payment anytime by completing and submitting the HSA Change Form available on the retiree website or by contacting the Progress Energy Employee Service Center (ESC) at 1-800-546-5705.

Q: What are the limits for "catch-up" contributions for participants age 55 – 64?

A: Participants who are or become age 55 to 64 during the year may make additional "catch up" contributions of up to \$1,000 each year in excess of the maximum that applies to younger participants.

Q: Does the ability to make "catch up" contributions apply only to the employee or retiree? For example, if I'm under age 55 but my spouse is over age 55 and I elect Family coverage under the HDHP, can I make "catch-up" contributions to my HSA on behalf of my spouse?

A: The ability to make "catch-up" contributions is based on the age of the account holder (i.e., the employee or retiree), not the account holder's spouse. The only way you and your spouse would both be able to make "catch-up" contributions would be if you are both age 55 – 64 and have each established separate HSAs.

Q: If I stop participating in the HDHP, enroll in Medicare, or become covered under another medical plan that is not a high-deductible medical plan, what happens to my HSA?

A: You may keep your HSA and continue to use the funds in your account to pay for qualified out-of-pocket medical expenses, but you may no longer contribute to it. Company contributions of seed money will also end. BNY Mellon will send you the information you need to continue your HSA when your coverage under the HDHP ends.

Q: I understand that the company will make “seed money” contributions to my HSA. How much will the contributions be?

A: For 2010, Progress Energy will contribute seed money to your HSA on a pre-tax basis for the period that you are a member of the HDHP, provided you have elected to open an HSA. The dollar amount of seed money is determined based on the level of coverage you elect and whether you participate in the HDHP for the full year. Note that retirees who pay the full cost of coverage and surviving dependents of retirees, who are under age 65, may enroll in the HDHP but are not eligible to open an HSA through Progress Energy or to receive company seed money. In addition, seed money will generally not be provided for your covered domestic partner or domestic partner children under the HDHP unless they are considered “tax dependents” under IRS rules. Refer to “Your Retiree Guide to the HDHP and HSA Option” for more detailed information about seed money.

Q: I’m a pre-65 retiree and I’m not receiving a pension check. Can I arrange to make an ACH debit from my personal checking account into my BNY Mellon HSA through Progress Energy?

A: Many banks will not allow direct ACH debits from a personal account to an HSA because of the tax-preferred status of the HSA. You will need to contact your bank about their willingness to send an ACH deposit directly to your HSA at BNY Mellon.

Q: What happens if I make contributions that exceed the maximum amount allowed for the year?

A: BNY Mellon will accept all contributions (including any catch-up contributions for members age 55 and older). You are responsible for making sure your HSA contributions do not exceed the maximum limits for the year. If they do, you are responsible for withdrawing them and any associated earnings from your account by the tax filing deadline (April 15 of the following year for most employees). You will have to pay taxes on the excess you withdraw but no penalty tax. If you fail to withdraw any excess contributions, they and their associated earnings are subject to regular taxes plus a 6 percent excise tax.

Q: I understand that I have to participate in an HDHP and not be covered by any other medical plan that is not an HDHP in order to establish and make deposits in my HSA. Can I have a cancer policy and still make contributions to an HSA?

A: You may have certain types of insurance other than an HDHP and still qualify to make contributions to an HSA. Types of insurance that are allowed include coverage for specific diseases (such as cancer), vision, dental and long-term care coverage.

Q: I'm eligible for benefits from the Veterans' Administration (VA). Can I still make contributions to an HSA?

A: Veterans may qualify to make contributions to an HSA if they have not received veterans' health benefits during the previous three months. If you receive veterans' health benefits, you will be prohibited from making additional HSA contributions for a period of three months. This limitation also applies if your spouse is a veteran and you are making contributions to your HSA on his or her behalf.

Withdrawals from your HSA

Q: Will I only be allowed to withdraw funds from my HSA to pay eligible medical expenses?

A: You may use your HSA funds for any reason. However, distributions from your HSA for qualified medical expenses are tax-free, and distributions for nonqualified expenses are subject to income tax. In addition, if you take a distribution for a nonqualified expense before you are age 65, you will have to pay an additional 10 percent penalty tax, unless you are totally disabled or die.

Q: I understand BNY Mellon will charge fees for set-up and maintenance of my HSA and for additional debit cards. Can these expenses be deducted from my HSA on a tax-free basis?

A: Yes. The applicable IRS rules recognize administrative expenses associated with HSAs as being eligible for tax-free payment.

Q: If I use HSA funds for expenses that are not eligible medical expenses can I correct the error?

A: Yes. You may replace the funds used in error as long as you do so before April 15 of the following year. You should also maintain documentation of the transaction in the event of an IRS audit.

Q: If I have a qualified medical expense but I don't have enough money in my HSA to cover the expense can I wait to be reimbursed until a later date when I have accumulated sufficient funds?

A: Yes. You can wait until a later date to be reimbursed for an eligible medical expense that you incur on or after the date you establish your HSA. For example, assuming you establish your HSA effective January 1, 2010, you can be reimbursed for any eligible expense you incur on or after that date. In this example, you cannot be reimbursed for eligible expenses you incur in 2009.

Q: Can I use my HSA funds to pay premiums for a Medicare supplement policy?

A: No. However, HSA funds can be used to pay premiums for Medicare Part A, B, or D.

Q: What are the limits on the amounts of HSA funds I can use to pay long-term care premiums?

A: For 2008, the age-based limits on eligible long-term care premiums are as follows:

Attained age before the end of the year:	Premium limit:
40 or less	\$320
More than 40 but not more than 50	\$600
More than 50 but not more than 60	\$1,190
More than 60 but not more than 70	\$3,180
More than 70	\$3,980

Q: What is the current mileage rate for travel to and from doctors' visits or to receive other medical care?

A: The standard mileage rate allowed for use of your car for medical reasons is \$0.24 per mile for expenses incurred on or after January 1, 2009. This amount is subject to change by the IRS.

HSA set-up and administrative matters

Q: What will I need to do to set up my HSA with BNY Mellon?

A: If you elect to participate in the HDHP, BNY Mellon - the HSA custodian - will send you an HSA welcome kit along with a signature card and beneficiary designation form. You should complete and return the signature card and beneficiary form **as soon as possible**. After completion, BNY Mellon will set up your HSA and issue you an account debit card, debit card PIN and checkbook.

Q: Can my HSA be set up in both my name and my spouse's name?

A: No. According to the applicable IRS rules, HSAs must be owned by an individual (not jointly as a family).

Q: Can the checks for my HSA have more than one name on them?

A: No. Because the IRS views HSAs as individual accounts (similar to an IRA), the checks will only have the account holder's name on them. However, you may authorize additional individuals to sign your HSA checks by obtaining their signatures when you complete your signature card.

Q: Will I be able to get an HSA debit card for my spouse?

A: Yes. You can contact BNY Mellon to request that your spouse become an authorized user. There is a fee of \$5 for a duplicate debit card. This fee will be deducted from your HSA funds.

Q: What will be the brand of the HSA debit cards?

A: The HSA debit cards issued by BNY Mellon will be MasterCard brand.

Q: Can I name more than one beneficiary for my HSA?

A: Yes.

Q: I understand that once I have accumulated a balance of \$1,500 or more in my HSA, I will be able to invest a portion of the money in various mutual funds. Will BNY Mellon charge fees to change investment options?

A: No. BNY Mellon will not impose fees for changing investment options among the available HSA mutual fund options. A fee of \$2.90 per month applies to use the ACS/Mellon HSA Solution investment platform. No additional transaction fees, loads or commissions apply.

Q: What happens when my HSA has a zero balance? Will it automatically be closed, or will I incur monthly charges? How do I close my Mellon HSA?

A: You can write a check to bring your HSA checking account to a zero balance, or you can request a fund transfer at a cost of \$25. If you do not notify Mellon of your desire to close your HSA, applicable fees will continue to be charged and your HSA will go to a negative balance and then be subsequently closed automatically.

Q: I understand that if I participate in the HDHP and use physicians, hospitals and other providers in the BCBS network, the expenses that apply toward my deductible and out-of-pocket limit will be based on the discounted fees agreed to by the providers. Will these discounted fee amounts be available on the web?

A: Due to the nature of the contracts between BCBSNC and healthcare providers, the discounted network pricing is generally not available through the online tools provided by Progress Energy and BCBSNC. However, although some pricing differences exist between specific pharmacies, the PharmaAdvisor tool does include discounted pricing information about prescription drugs. This information is updated on a quarterly basis and should provide a good means for estimating prescription drug costs under the HDHP option.

The following decision support tools are available through [Progress Energy's BCBSNC web site](#) to help you estimate your costs:

- **PharmaAdvisor:** This tool allows you to research medical conditions from allergies to heart disease and cancer and compare treatment options, including prescription drugs. You will be able to compare prescription drugs side-by-side, research a specific drug, look at retail cost options and generic alternatives and check for possible drug interactions.
- **Health Care Cost Estimator:** This tool includes cost information for common inpatient hospital services, outpatient procedures and doctor's office visits. It can give you the information you need to more effectively partner with your doctor to make the best health care decisions for you.
- **Hospital Comparison Tool:** This tool will help you compare hospitals based on the factors that are important to you, such as hospital reputation, number of beds and the number of patients successfully treated for particular conditions.

- **Online Health Encyclopedia:** Through the Healthwise Knowledgebase, you can research health and wellness topics, including symptoms, treatments options, prescription drug information, first aid techniques and more.

Q: What is Form 5498-SA?

A: By May 31 each year, BNY Mellon will send you IRS Form 5498-SA showing total contributions to your HSA for the previous calendar year, including company seed money, payroll deductions and any other contributions sent directly to Mellon on your behalf. You can view this form at the following link:

<http://www.irs.gov/pub/irs-pdf/f5498sa.pdf>

Q: What is Form 1099-SA?

A: By January 31 following any year there is a distribution from your HSA, BNY Mellon will issue you an IRS Form 1099-SA showing the amount of the distribution. The form will also show whether it was a tax-free “normal distribution,” a “prohibited distribution” subject to income and penalty taxes, or another type of distribution (e.g., due to death of the account holder) subject to income tax, but not tax penalties. You can view this form at the following link:

<http://www.irs.gov/pub/irs-pdf/f1099sa.pdf>