

**GUIDE TO
THE HDHP AND HSA OPTION
RETIREES AND INACTIVE
PARTICIPANTS**

2010 UPDATE



Progress Energy
Your retiree guide to the HDHP and HSA option for 2010
...a high-deductible health plan with an optional health savings account feature

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INTRODUCTION

This brochure introduces Progress Energy’s high-deductible health plan (HDHP) and provides an in-depth look at how this plan and the health savings account (HSA) feature work. It also includes information about resources and tools available to help you decide if the HDHP might make sense for you. Please read this guide carefully. More information about your medical plan choices for 2010 is available in the special enrollment issue of *ProgressLife* and your annual enrollment materials.

ELIGIBILITY

To elect the HDHP and set up an HSA for 2010, you must be a nonbargaining or bargaining unit retiree of the company **under age 65**, with no covered family members (including yourself) who are eligible for or enrolled in Medicare. Also, you cannot:

- Be covered under another medical plan that is not a high-deductible health plan
- Be claimed as a dependent on anyone else’s tax return
- Participate in or be eligible for benefits from a health care reimbursement account (including that of your spouse)
- Be receiving any Veteran’s Administration medical benefits
- Be receiving benefits from the company-sponsored long-term disability plan

Note: 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. They may open an HSA on their own with a bank or other financial institution.

When you enroll in the HDHP, you may also enroll your spouse and eligible dependent children, just as you do now. You may also enroll your domestic partner in your Progress Energy medical plan. However, because domestic partners are generally not tax dependents under federal law, special tax rules apply to HSA distributions for domestic partners as indicated on page 11.

OVERVIEW OF THE HDHP

The HDHP is a *high-deductible* health plan administered by Blue Cross Blue Shield of North Carolina (BCBSNC). The HSA feature is administered by Affiliated Computer Services (ACS) and The Bank of New York Mellon (BNY Mellon).

The HDHP offers the same BlueCard® network of doctors and hospitals available under the Progress Energy Standard and Choice plans for non-bargaining retirees and the BU BCBSF-750 medical plan for bargaining unit retirees. This is the largest network offered by BCBS, so that you are covered wherever you go across the U.S. and in more than 200 countries and territories worldwide. To find a network doctor, log on to www.bcbsnc.com/members/progressenergy and look for the BlueCard® network in your area.

The HDHP provides both in- and out-of-network coverage, just like the Standard, Choice and Choice Plus plan options for non-bargaining retirees and the BU BCBSF-750 plan for bargaining unit retirees. However, the HDHP works differently in these three key ways:

1. Except for certain preventive care services, all covered medical expenses are subject to the plan deductible;
2. Under retiree + one or family coverage, the family deductible must be met before benefits are payable for any covered person; and
3. There are no copays, even for office and emergency room visits, mental health care and prescription drugs. In-network covered charges are paid at 100 percent after the deductible is met each calendar year.

Preventive care benefit: The following preventive care services are covered at 100 percent when received from in-network providers in an office setting, and are not subject to the deductible:

- Annual physical exams and well-baby, well-child care
- Annual OB/GYN visit and Pap tests
- Mammography screenings
- Prostate screenings
- Standard immunizations

Deductible: Before the plan pays benefits, you must first meet the deductible (see preventive care exception above):

- \$2,500 if you are enrolling for retiree only coverage
- \$5,000 if you are enrolling for retiree + one dependent or family coverage – **No benefits will be payable from the plan until you and/or your covered family members have incurred expenses in excess of this total family deductible amount**

New for 2010: Once you meet your individual or family deductible, **the plan pays 100 percent** of covered medical expenses for the rest of that year. (For care received outside the plan network, any charges above usual and customary charge limits do not count toward the deductible.)

Lifetime maximum benefit: The maximum amount that the plan will pay over a covered person's lifetime is \$2 million.

Summary of the HDHP

Plan Feature	HDHP
Wellness exams	100%; no copay or deductible
All other eligible services including <ul style="list-style-type: none"> • Office visits : • Outpatient services • Inpatient services • Prescription drugs 	Deductible applies
Annual deductible <ul style="list-style-type: none"> • Self only coverage • Self + 1 or Family coverage 	\$2,500* \$5,000*
Lifetime maximum	\$2,000,000
Health Savings Account	Available with company seed money of \$500 (retiree only coverage) or \$1,000 (retiree + one or family coverage) for 2010.

* If you elect retiree + one or family coverage, you must satisfy the **family** deductible before the plan pays benefits for any covered person.

Note: Under the HDHP, prior plan approval is required in order for certain procedures, such as hospital stays, in- or outpatient surgery, home health care, durable medical equipment, private duty nursing and non-emergency ambulance services, to be covered, in- or out-of-network. Be sure to check with your health care provider about obtaining approval for any procedures he or she recommends, or you may call BCBSNC at **1-877-258-3334**. If you don't, plan benefits may be reduced or denied. Information about prior plan approval can be viewed at www.bcbsnc.com/members/progressenergy under *Prior Plan Approval*.

Premium contributions

For most retirees who contribute to the cost of retiree medical coverage, the HDHP will be the lowest premium cost option that is offered by the company. You may wish to use this premium savings to make tax-deductible contributions to your HSA. Information on any applicable premium contributions for 2010 is included in your enrollment materials.

HEALTH SAVINGS ACCOUNT (HSA)

Pairing the HDHP with an HSA gives you a way to exercise choice over your health care spending **and** provides a tax-favored way you can pay your current and future medical expenses.

The HDHP and HSA work together to encourage you to achieve and maintain good health and, when you need medical care, to choose the treatments and services you receive wisely and well. Taking better care of yourself and becoming more knowledgeable about treatment options helps you spend less on health care now. And, spending less now means you can accumulate more tax-free money in your HSA to cover medical expenses in the years to come.

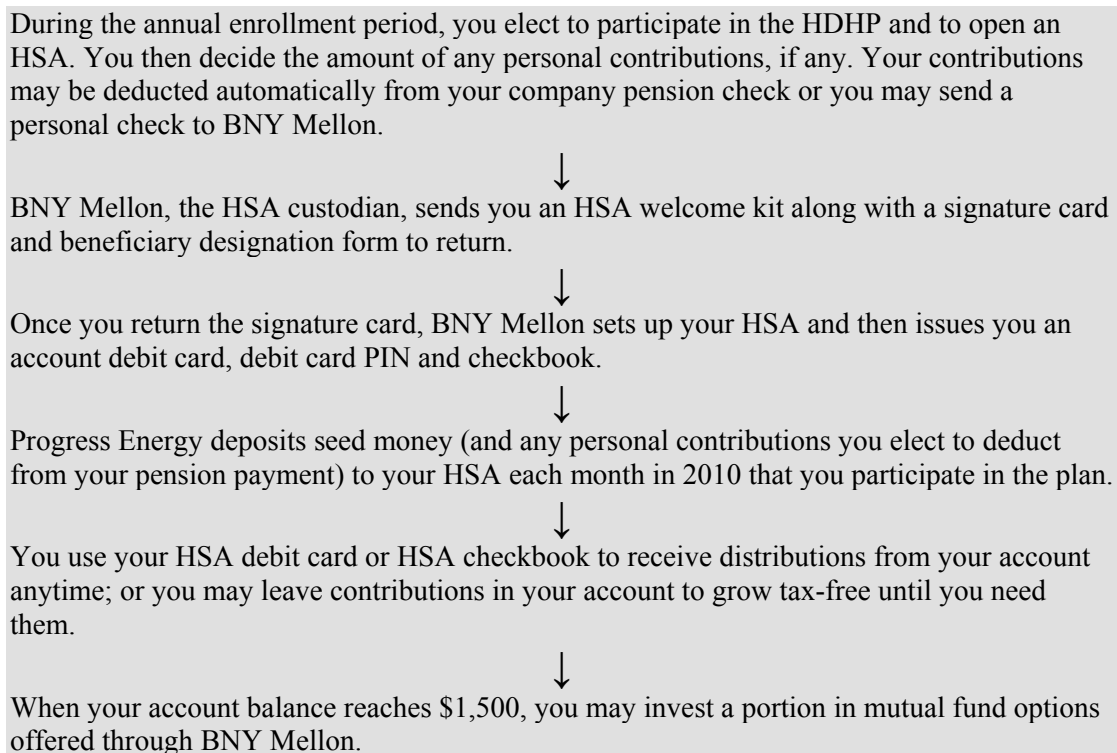
HSA at-a-glance

Highlights	To learn more, go to...
<ul style="list-style-type: none"> • When you elect HDHP coverage for 2010, you may also elect to open an HSA*. If you do, company seed money will be automatically deposited into your account, as follows: <ul style="list-style-type: none"> – \$500 for 2010 if you elect retiree only coverage – \$1,000 for 2010 if you elect retiree + one dependent or family coverage • You may make tax-deductible contributions to your HSA, up to the annual limits. If you contribute by personal check, you may contribute any amount up to the annual limit. <i>(You are <u>not</u> required to contribute to your HSA to receive the company seed money, but you must open an HSA.)</i> • If you are age 55 or older, you may make additional tax-deductible “catch-up” contributions. • <i>You are always 100 percent vested in the seed money Progress Energy contributes to your account and in your HSA contributions</i> <p>* 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. They may open an HSA on their own with a bank or other financial institution.</p> <p>Note: Company seed money is designed to jumpstart your HSA and cover any initial set-up and administrative fees charged against your HSA (see <i>HSA fees and expenses</i>, page 13).</p>	<p>Setting up your HSA – page 5</p> <p>Growing your account Seed money – page 7</p> <p>Growing your account Your contributions – page 6</p> <p>Growing your account Maximum contribution limits – page 6</p>
<ul style="list-style-type: none"> • You can receive earnings on your HSA in two ways: <ul style="list-style-type: none"> – Checking account interest: Annual interest of 0.10* percent accrues daily and is posted to your checking account on the last business day of every month. – Investment account earnings: When your balance is at least \$1,500, you may invest a portion among several mutual funds with varying risk/reward profiles. • The funds in your HSA (including any amount invested in mutual funds) can accumulate tax-free, year after year, until you initiate distributions from your account. <p>* interest rates are subject to change periodically.</p>	<p>Growing your account Earnings on your HSA – page 8</p>
<p>You may get distributions from your HSA any time:</p> <ul style="list-style-type: none"> • You will receive an account debit card and special checkbook to provide you access to your HSA balance any time. 	<p>Using your account Getting distributions – page 9</p>
<p>Here are some examples of expenses that can be reimbursed tax-free through your HSA:</p> <ul style="list-style-type: none"> • Medical expenses used to meet the HDHP deductibles • Most other out-of-pocket medical expenses paid by your current medical plan (hospitalization, lab and x-ray services, office visits and prescriptions) as well as numerous medically-related expenses not usually covered by your medical plan, for example: <ul style="list-style-type: none"> – Copays and deductibles for eligible dependents, even if they are not enrolled in your HDHP – Laser eye surgery – Reimbursement of mileage and certain other travel costs related to medical care – Premiums for: <ul style="list-style-type: none"> ▪ Medicare coverage, including Part D 	<p>Using your account Qualified medical expenses – page 9</p>

<ul style="list-style-type: none"> ▪ COBRA medical coverage ▪ Long-term care insurance (limits apply) 	
<ul style="list-style-type: none"> • Tax treatment of your distributions is based on why and when you withdraw your money: <ul style="list-style-type: none"> – <i>Withdrawals for qualified medical expenses for you and your eligible dependents are always tax-free.</i> – Withdrawals for <i>nonqualified</i> expenses after you reach age 65 are subject to regular income taxes. – Withdrawals for <i>nonqualified</i> expenses before you reach age 65 (unless you are disabled or die) generally are subject to income taxes <i>plus</i> a 10 percent penalty tax. 	<p>Tax information <i>Tax treatment of distributions</i> – page 10</p>
<ul style="list-style-type: none"> • When you (or a covered dependent) reaches age 65 or you otherwise drop coverage: <ul style="list-style-type: none"> – You are no longer permitted to make (or have others make) contributions to your account. – The funds in your account may accumulate on a tax-deferred basis, year after year, with additional interest and investment earnings credited, as applicable. – You may continue to get tax-free distributions for qualified medical expenses until your account is depleted. – In the event of your death, your spouse, other designated beneficiary or estate will receive your remaining account balance. 	<p>What happens? – page 13</p>

Setting up your HSA

Once you make the election to participate in the HDHP, it's time to elect and then set up your HSA. Here's how:



Financial institutions are required by federal law (the Patriot Act) to obtain, verify and record information that identifies individuals opening an account. BNY Mellon will ask for your name, residence address, date of birth, tax identification number and may request other information such as a driver's license or passport.

Once you are enrolled, you may register for online access to your HSA by logging on to the member home page at www.bcbsnc.com/members/progressenergy. Click on *HDHP-HSA*, then *HSA Member*, then follow the system prompts to *Managing Your HSA* and set up your user ID and password.

Growing your account – contributions and earnings

Your HSA can grow with seed money from the company, your contributions, if you elect to contribute, and any other contributions made to your account (see below), plus interest. In addition, if your HSA checking account balance reaches a minimum of \$1,500, you may choose to transfer a portion of your balance to one or more HSA investment options, in which case applicable investment earnings (or losses) will be credited to your account.

Your contributions

When you enroll in the HDHP and elect to open an HSA, you may elect to make personal contributions to your account, and later claim these contributions as deductions on your income tax return. You may make personal contributions either by having them deducted from your monthly pension payment or sending them directly to BNY Mellon for deposit into your HSA.

Maximum contribution limits

The combined contributions to your account – from all sources – cannot exceed the maximum determined annually by the IRS.

For 2010, maximum HSA contribution limits for Progress Energy participants will equal the following IRS contribution limits:

- \$3,050 for those with retiree only coverage
- \$6,150 for those with retiree + one dependent or family coverage
- An additional \$1,000 in catch-up contributions for any participant between age 55 and 64

Note: When calculating your contributions to the HSA, be sure to take the company seed money into account.

Changing contributions from your pension payment

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.

Seed money - company contributions

For 2010, Progress Energy will contribute seed money to your HSA each month that you are a member of the HDHP, provided you have elected to open an HSA.

The chart below shows the amounts and timing of company seed money deposits, as well as how the amount of seed money you receive will be adjusted if you participate for less than 12 full months.

Seed money for your HSA in 2010*

Type of HDHP membership	Initial seed money deposit	Seed money deposit each remaining month*	Maximum seed money for 2010
<i>Self only</i> Enrollment effective 1/1/2010 – 10/1/2010	\$280	\$20	\$500
Enrollment effective 10/2/2010 – 12/31/2010	n/a	\$20	
<i>Self + 1 or family</i> Enrollment effective 1/1/2010 – 10/1/2010	\$560	\$40	\$1,000
Enrollment effective 10/2/2010 – 12/31/2010	n/a	\$40	

*Seed money is contributed each month in which you are a member of the HDHP.

During each year’s annual enrollment period, Progress Energy will announce the amount of the seed money, if any, that will be contributed for the following year. That determination will be based on an annual review of all company benefit program costs, national trends and benchmarking against other comparable companies.

NOTE: Seed money will generally not be provided for your covered domestic partner or domestic partner children cover under the HDHP unless they are considered “tax dependents” under IRS rules.

If you lose eligibility for or otherwise drop your HDHP coverage, you also lose eligibility for future seed money contributions to your account.

Other contributions to your HSA

You – or anyone else, including family and friends – may send additional contributions for your HSA directly to BNY Mellon, provided total contributions to your account in any year do not exceed the applicable IRS annual limit (see *Maximum contribution limits*). BNY Mellon can accept other contributions to your account for a calendar year up until April 15 of the following year.

Other deposits to your account are also tax-deductible by you – no matter who actually made the contribution. You simply enter the amount on your 1040 EZ, 1040 or 1040A tax return where indicated, and no tax will be assessed.

Contributions for partial years

If you participate in the HDHP for less than 12 full months, you will still be permitted to elect the maximum annual contribution and any catch-up contributions.

If contributions to your HSA exceed the maximum

BNY Mellon will accept contributions up to the maximum family contribution for the year, plus any catch-up contribution for members age 55 and older. Make sure your contributions to your HSA do not exceed the maximum limits for the year. If they do, you may withdraw them and any associated earnings from your account by the tax filing deadline (April 15 for most people). 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.

Earnings on your HSA

Interest on your account

The amount in your HSA checking account earns 0.10 percent* annual interest. Interest accrues daily and is posted to your account on the last business day of every month. You will continue to receive interest as long as any funds remain in your HSA checking account, even if you no longer participate in the HDHP.

*interest rates are subject to change periodically.

Investing your account balance

When your HSA checking account balance reaches \$1,500, you may elect to invest a portion among several mutual funds. There is no minimum investment in the funds (you may invest as little as \$1 in the available mutual funds) Here is a brief summary of the mutual funds available through the ACS/Mellon HSA Solution investment platform as of August 2009. Additional or other mutual fund choices may become available in the future.

Fund category	ACS/Mellon HSA Investment Fund	Ticker
Money Market	DREYFUS CASH MGMT PLUS – INVESTOR SHS	DCVXX
Intermediate-Term Bond	CALVERT INCOME FUND CLASS A	CFICX
Short-Term Bond	CALVERT SHORT DURATION INC CLASS A	CSDAX
High Yield Bond	FIDELITY ADV HIGH INC ADVANTAGE CLASS T	FAHYX
Short Government	GOLDMAN SACHS SHORT DURATION GOVT CLASS A	GSSDX
World Bond	TEMPLETON GLOBAL BOND CLASS A	TPINX
Mid-Cap Growth	AMERICAN CENTURY HERITAGE CLASS A	ATHAX
Large Blend	DREYFUS APPRECIATION FUND	DGAGX
Large Value	DREYFUS PREMIER STRATEGIC VALUE CLASS A	DAGVX
Diversified Emerging Markets	FIDELITY ADVISOR EMERGING MKTS CLASS A	FAMKX
Mid-Cap Blend	GABELLI ASSET FUND CLASS AAA	GABAX
Large Growth	MFS AGGRESSIVE GROWTH ALLOCATION CLASS A	MAAGX
Foreign Large Growth	MARSICO INTERNATIONAL OPPORTUNITIES	MIOFX
Foreign Large Blend	MFS RESEARCH INTERNATIONAL CLASS A	MRSAX
Small Growth	FIDELITY ADVISOR SMALL CAP CLASS A	FSCDX
Small Blend	KEELEY SMALL CAP VALUE FUND	KSCVX
World Stock	MUTUAL SERIES MUTUAL DISCOVERY CLASS A	TEDIX
Moderate Allocation	AMERICAN CENTURY STRAT ALLOC CLASS A	ACVAX
World Allocation	IVY ASSET STRATEGY CLASS A	WASAX
Real Estate	T ROWE PRICE REAL ESTATE FUND ADV CL	PAREX

You will be charged a fee of \$2.90 per month to use the ACS/Mellon HSA Solution investment platform. There are no additional transaction fees, loads or commissions.

Your HSA checking account balance must be at least \$1,500 following any initial or subsequent transfer of money to a mutual fund option. For more information about investing your account balance, you may log on to www.bcbsnc.com/members/progressenergy and access **My HSA Account** after you have enrolled in the plan.

Vesting in your account

You are always 100 percent vested in your entire account balance, including seed money from the company, your contributions, other contributions made on your behalf, interest and any investment earnings. The money is yours to spend as you see fit, just as if it were a personal checking account. Keep in mind, however, that distributions are tax-free only when you use them to pay qualified out-of-pocket medical expenses.

Using your account

Getting distributions

After you set up your account, BNY Mellon will send you a debit card and checkbook that you may use to get distributions of the available funds in your checking account anytime. The HSA debit card and checkbook generally work like those for a personal checking account, except that the debit card will work only where eligible health care expenses can be purchased, such as pharmacies and doctor offices. Just be sure that your account has a sufficient balance to cover your transaction or you may be subject to overdraft fees (See *HSA account fees and expenses*, page 13).

Note: If you do not have enough money in your HSA checking account to cover an expense, you can transfer money from your HSA investment account back to your HSA checking account and then submit the claim.

Although you do not need to submit receipts to get distributions from your account, be sure to keep them all to document your eligible expenses. See *Tax records and reporting*, page 11.

You can access funds in your account any time, but you are not required to take distributions from your HSA. You may elect to let the funds in your account accumulate tax-free, year after year.

Qualified medical expenses

<p>Distributions from your HSA for qualified out-of-pocket medical expenses incurred by you and your eligible dependents are tax-free. Listed below are some examples of qualified medical expenses.* <i>Note that the list of qualified expenses includes a wide range of items and services beyond those that may be covered by your HDHP.</i></p>		
<ul style="list-style-type: none"> • Acupuncture • Ambulance expenses • Artificial teeth • Chiropractors • Christian Science practitioners • Deductibles under your or your eligible dependents' health insurance coverage • Dental treatment • Prescription drugs • Eyeglasses 	<ul style="list-style-type: none"> • Medicare deductibles • Mileage and certain other travel costs related to medical care • Nursing homes • Orthodontia • Orthopedic shoes • Over-the-counter medicines • Oxygen and equipment • Podiatry • Prosthesis • Smoking cessation programs 	<ul style="list-style-type: none"> • Premiums for: <ul style="list-style-type: none"> – Medicare coverage – COBRA coverage – Long term care coverage (limits apply) – Health coverage if you are receiving federal or state unemployment benefits

<ul style="list-style-type: none"> • Fertility enhancement • Hearing aids • Lasik eye surgery • Long-term care insurance (up to certain limits) 	<ul style="list-style-type: none"> • Telephones and television for the hearing impaired • Vitamins (if prescribed) • Vaccines • Weight loss programs • Wheelchairs 	
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Examples of expenses that do **not** qualify for tax-free distributions include:*

- Advance payment of future medical expenses
- Athletic club membership
- Cosmetic surgery
- Electrolysis or hair removal
- Hair transplants
- Premiums for coverage to supplement Medicare
- Vitamins and nutritional supplements
- Special foods or beverages
- Teeth whitening
- Any expenses incurred by your domestic partner who is not a tax dependent

*Check IRS Publication 502 (available at www.irs.gov) for more detailed listings of qualified and nonqualified expenses.

Tax information

Tax treatment of contributions and earnings

You pay no tax on funds deposited in your HSA (whether they are your contributions, seed money from Progress Energy or contributions sent by check to BNY Mellon from you or someone else on your behalf), interest on your balance or investment earnings.

Type of HSA contribution or credit	Tax treatment when credited to your account
Progress Energy seed money	Tax free
Your contributions	Tax-deductible on your income tax return
Interest or investment earnings	Tax-free
Other contributions made by check directly to BNY Mellon	Tax-deductible on your income tax return, even if someone else made the contribution for you

This means that if you contribute \$1,200 to an HSA in 2010, you would save an estimated \$300 in taxes (assumes federal tax rate of 25 percent; state tax rate of 0 percent). If you are also subject to state income tax, your tax savings would be greater.

Tax treatment of distributions

The money in your HSA is yours to spend as you see fit. However, the timing and purpose for each distribution will determine whether you receive the money tax-free or will have to pay income taxes and possibly an additional penalty tax.

Type of distribution/withdrawal	Tax treatment
<i>Qualified medical expenses</i> (see page 9) at any time for you and your eligible dependents (see note below)	Tax-free
<i>Nonqualified</i> medical or other expenses for you and your eligible dependents if you are age 65 or older, are disabled	Subject to income taxes

or die	
<i>Nonqualified</i> medical or other expenses for you or your eligible dependents before you are age 65 (unless you are disabled or die)	Subject to income taxes plus 10 percent penalty tax

Note: Because the federal tax code does not recognize a domestic partner as a tax dependent, distributions for expenses incurred by your domestic partner would be considered nonqualified and subject to income taxes and, unless you are age 65 or older, a 10 percent penalty tax.

Keep in mind, tax-free distributions are available for *all* qualified medical expenses incurred by your eligible dependents, even if those dependents are not covered under the HDHP. For example, if your spouse is covered by his or her employer’s health plan, you may use your HSA to pay the costs of copays, deductibles and coinsurance under that plan with tax-free dollars.

Tax records and reporting

On contributions

Your Progress Energy W-2 will show total company seed money contributions to your account for the year. These contributions are tax-free. By May 31 each year, BNY Mellon will send you IRS Form 5498-SA showing total contributions to your account, including company seed money, your contributions and any other contributions sent directly to BNY Mellon on your behalf. In addition, you may access account information at www.bcbsnc.com/members/progressenergy.

On distributions

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.


Document your distributions

Although you are not required to submit documentation at the time you request an HSA distribution, it is essential that you keep all receipts and other documentation of distributions from your HSA. **You** – *not* Progress Energy, BCBSNC or BNY Mellon – are responsible for proving that tax-free distributions from your account were made for qualified medical expenses. If you are audited by the IRS, you will need to substantiate every distribution to confirm that it received the correct tax treatment.

Easy online access

To learn more about the HDHP and HSA option, go to www.bcbsnc.com/members/progressenergy/ then click on the HDHP-HSA button to see the screen below and access more information.

[Home](#)



Health Savings Account Helpful Links

Learn more about the Progress Energy High Deductible Health Plan (HDHP) and Health Savings Account

[Click Here](#)

- Progress Energy HSA Brochure (Information coming soon. Check Progress Daily for updates and details)
- Experience HSA
- HSA basics, tax advantages of HSAs, how HSA works
- Enrollment Checklist
- Benefit Summaries
- [PharmaAdvisor](#) - This tool allows you 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. It reflects discounted pricing information
- [Health Care Cost EstimatorSM](#) - As a Blue Cross Blue Shield of North Carolina member you will have tools to help you compare health care costs so you can budget for expenses. You must be a registered member to access this tool


HSA Members - If you have enrolled in the Progress Energy HSA

[Click Here](#)

- HSA Portal Tutorial
- Mellon Bank Welcome Kit (This kit will be mailed to your home at the beginning of December 2006 or you can click here to download the contents)
- Managing your HSA
- HSA Frequently Asked Questions
- Dreyfus Fund Account information

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Managing your account

Online

After you have elected to open an HSA and returned your signature card (see *Setting up your HSA, page 5*), you can activate your account online with BNY Mellon by logging on to the member home page at www.bcbsnc.com/members/progressenergy. On your first visit to the site, you will need to register your user ID and password. Then you can access your medical plan and HSA information anytime.

By phone

The numbers below will connect you with the Mellon HSA Solution Contact Center where you may access your HSA information 24 hours a day through the interactive voice system. You may also speak directly with a BNY Mellon representative Monday through Friday (except national holidays), 8:00 a.m. to 11:00 p.m. Eastern time.

877.484.5029

201.329.8818 (international)

800.231.5469 (TDD)

By mail

Each month, BNY Mellon will send you a comprehensive statement showing all your HSA activity, including contributions, distributions, interest and any earnings on your account.

HSA account fees and expenses

As described below, BNY Mellon automatically deducts certain fees from your account. All deductions will appear on your online account records and your monthly account statement.

One-time set-up fee

A one-time set-up fee of \$15 will be deducted from the company seed money initially deposited to your HSA.

Monthly maintenance fee

If your *average monthly* account balance is \$1,000 or less, it is subject to a monthly \$3.50 fee that will be automatically deducted from your account. When your average monthly balance exceeds \$1,000, no monthly fees will be assessed. This fee will not apply until the month after you establish your account.

Insufficient balance fee

In the event that your HSA balance is insufficient to cover a check you issue, your account will be assessed an overdraft fee. *If your balance is insufficient to cover an HSA debit card transaction, the entire transaction will be declined.*

WHAT HAPPENS

If you drop your participation in the HDHP, enroll in Medicare, or become covered under another medical plan (that is not a high-deductible medical plan)?

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. Any company seed money contributions will also end. BNY Mellon will send you the information you need to continue your HSA when your coverage under the HDHP ends.

If your participation in the HDHP ends, you have the option to maintain your HSA with BNY Mellon. If you are not covered by a high-deductible health plan, you will no longer be able to contribute to your HSA. You will, however, receive a new checkbook and debit card so that you can process claims from your account, and you will continue to receive monthly paper statements. Access to the BCBSNC online resources, including *My HSA Account*, will end when your membership in the HDHP ends.

If you die with money remaining in your HSA?

If you are married, your spouse will become the owner of your HSA when you die, unless you have named another beneficiary. If the HSA passes to your spouse, funds can continue to be used to cover qualified medical expenses incurred by you prior to your death, your spouse or your or your spouse's other tax dependents.

If you have named a beneficiary other than your spouse, your beneficiary will be subject to income taxes on the balance in your HSA when you die. If you are single and have named no beneficiary, your HSA will become part of your estate and will be subject to estate taxes.

Note: Following your death, no additional seed money will be deposited into your account.

If your spouse has the opportunity to open an HSA through his or her employer?

Both you and your spouse may open and contribute to individual HSAs. Your combined contributions to the HSAs, however, cannot exceed \$6,150 in 2010.

If you use HSA funds to pay nonqualified expenses?

You may use your HSA for any reason. Distributions from your HSA for qualified medical expenses are tax-free, but distributions for nonqualified expenses are subject to income tax. In addition, if you take the 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.

MAKING YOUR DECISION

This brochure is designed to give you details on how the HDHP and the HSA feature work. Additional information on this plan and your other medical plan choices for 2010 at Progress Energy is included in the special enrollment issue of *ProgressLife* and your annual enrollment materials.

Here are some suggestions of steps to take as you start to decide which medical plan might make the most sense for you and your family.

1. **Do the research:** What types of medical services do you and/or your covered dependents typically use during a year? What type of claims did you file this year? How about next year; do you expect any changes in medical coverage needs?
2. **Review your plan options:** Take a look at how each of your medical plan options work (including any plans that might be offered through your spouse's employer). What are the deductibles, copays, coinsurance levels and annual out of pocket limits? What, if any, are the annual premiums you would pay under each plan?
3. **Consider how the HDHP with the HSA option fits into the mix:** Pay special attention to the company seed money you would receive in 2010 and the opportunity this plan gives you to save and invest tax-free dollars to help cover current and future out-of-

pocket medical expenses, including medical costs in retirement. As you think about this plan, take some time to log on to www.bcbsnc.com/members/progressenergy and look at the tools and resources available to help you manage your medical care expenses. (Don't forget: you have to open an HSA when you elect the HDHP in order to receive company seed money.)

4. **Do the math:** Think about how your expected medical costs for next year would be covered under each plan. Be sure to look at your *total out-of-pocket costs* for each plan — copays, deductibles, coinsurance, annual premiums (if any) and any HSA contributions, including seed money from the company. And remember — money in your HSA that you don't use is yours to keep.
5. **Compare the results:** Once you have reviewed plan materials, compared your choices for coverage and thought about your medical needs for next year, you should be ready to choose medical coverage for 2010.
6. **Try these online resources for more help in making a decision:**

<https://hsamember.com/> – This web site shows how HSAs work and helps you calculate how your out-of-pocket medical expenses might compare under a traditional medical plan and an HDHP with an HSA. It also provides answers to many of your questions.

<http://www.bcbsnc.com/members/progressenergy> – Click on *HDHP-HSA* to learn more about HSAs. On this site, you can read about the tools available to help you learn about HSAs, their tax advantages, how they work and more. www.experiencehsa.com is one of the tools on this page that will help you understand how an HSA can work for people at different stages of life.

www.ustreas.gov/offices/public-affairs/hsa/ - This web site sponsored by the U. S. government provides useful information about the tax advantages of HSAs.

ONLINE TOOLS AND CALCULATORS

My HSA Account

This tool provides convenient online access to your HDHP and HSA information in one place. Just go to the member home page at www.bcbsnc.com/members/progressenergy to:

- View a summary of your medical plan benefits and covered dependents
- View your medical claims and expenses
- View your HSA fund balances and transactions
- Link your HSA transactions to your health claims for tax reporting
- Look up your investment information
- Generate HSA contribution and distribution tracking reports
- Order additional HSA checks
- Get answers to your questions
- Access planning tools, tips and resources, including the ***HSA Calculator***, which can help you calculate the maximum amount you can contribute to your HSA each calendar year

You will also receive monthly account statements detailing the activity in your HSA as well as annual tax report filings.

Blue Cross Blue Shield North Carolina resources

Health Care Cost Estimator: Want to know how much health services might cost? 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.

PharmaAdvisor: Use this tool to research medical conditions from allergies to heart disease and cancer. It's also the place to go to get a suggested list of questions to ask your doctor and to compare treatment options, including prescription drugs. You will be able to compare prescription drugs side-by-side, research a specific drug, look at cost options and check for possible drug interactions.

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.

BCBSNC also offers discounts on many health-related items, including vitamins, gym memberships, weight management programs, alternative medicine, laser eye surgery and hearing aids.

QUESTIONS & ANSWERS

Can I enroll in the Standard Plan for non-bargaining retirees or the BU BCBSF-750 plan for bargaining unit retirees, but establish an HSA?

No. Federal law requires that you must be covered under a high-deductible health plan like the HDHP to open an HSA.

Can I enroll in the HDHP and elect, but not contribute to my HSA?

Yes. You may elect the HDHP and not contribute to your HSA. You will still receive company seed money in your account if you open an HSA. If you change your mind, you may start contributing at a later time during the year.

How much do I have to contribute to get company seed money contributions?

Nothing. If you enroll in the HDHP and elect to open an HSA, company seed money will be deposited automatically into your account.

Can I set up HSAs for every member of my family?

No, but you can use your HSA to get tax-free reimbursement of qualified medical expenses incurred by your spouse and other family members who are considered your dependents for tax purposes.

Note: If your spouse is covered under your Progress Energy HDHP or another HDHP, he or she can open an individual HSA, but the total contributions to both of your HSAs cannot exceed \$6,150 in 2010. Your domestic partner is not considered your dependent for tax purposes.

If my spouse has a health care reimbursement account or other type of health plan with their employer, can I open an HSA?

It depends. You cannot open an HSA if your spouse’s reimbursement account or health plan could pay for any of your medical expenses, other than dental and vision expenses, before your HDHP deductible is met.

How are claims paid from my HSA?

Your HSA can have two accounts: a checking/debit account and an investment account. The checking account is opened first and will build over time through personal contributions and company seed money. This account will earn interest. You will receive a checkbook and debit card for this account to use when you want to pay or be reimbursed for a qualified out-of-pocket medical expenses. You should plan to maintain enough money in this account to pay for any expected current medical expenses.

When can I invest the money in my HSA?

When your HSA checking account balance reaches \$1,500, you may elect to invest a portion among several mutual funds (see *Earnings on your HSA*, [page 8](#)). There is no minimum investment in the funds (you may invest as little as \$1 in the available mutual funds). You must maintain a \$1,500 minimum balance in your HSA checking account. You cannot use the check book or debit card with the investment account; you would have to transfer money from your investment account back to your checking account.

Can I lose money in my HSA?

The money in your HSA checking account earns annual interest, is FDIC-insured, and is not subject to investment risk. Any money in your HSA investment account, however, is not FDIC-insured and there is risk to your principal, as with any other mutual fund investment. Mutual fund investments can appreciate or decline in value over time.

My HSA earns only 0.10 percent interest, so what's the advantage of putting my money into an account like this? I could earn more interest at a savings bank.

The interest credit isn't the chief advantage of using an HSA. It's the triple tax advantage. The company seed money deposited to your account through Progress Energy goes in tax-free. All other contributions are fully tax-deductible. You pay no federal income taxes and no state income taxes (even in the Carolinas). You pay no tax on your account as your balance accumulates. If you use the money for qualified medical expenses, you never pay tax on it. If you use it for other reasons, you don't pay tax until it comes out of your account. (But keep in mind – if you use the money for something other than qualified medical expenses, you will pay an additional penalty tax if you are under 65, unless you are disabled or die.) These examples show the impact of the tax-free feature when contributing either \$100 or \$200 per month.

Assumptions: federal tax rate = 25 percent; state tax rate = 0 percent*		
	Example 1	Example 2
HSA contribution	\$1,200	\$2,400
Estimated tax savings	\$ 300	\$ 600

*If you are subject to state income tax, your tax savings would be even greater. If your federal tax rate is lower, your tax savings would be correspondingly less.

The tax savings are the actual dollars you would have available to spend on medical care instead of paying taxes. And remember, any balance in your HSA that you don’t use is rolled over to future years.

Can I use the money in my HSA for other expenses (not medical expenses)?

Yes, but if you do, the money will be subject to regular income tax and, if you are under age 65, a 10 percent penalty tax, unless you are totally disabled or die.

Who can contribute to my HSA?

Anyone can contribute to an HSA on your behalf, including Progress Energy and other members of your family, up to the annual maximum contribution amount. Also, contributions to an HSA can be made through April 15 of the following year. For example, contributions for 2010 can be made through April 15, 2011.

DEFINING THE TERMS

Contributions: This is the money you and/or the company put into your HSA, up to annual limits each year. Other people can also contribute to the HSA on your behalf.

Deductible: The amount of covered expenses that you must pay each year before the HDHP pays a benefit. *If you have family coverage, you must meet the total family deductible amount before the HDHP will pay benefits for any covered medical plan services.* The deductible does not apply to preventive care services, which generally are covered at 100 percent. Once your expenses reach the limit for that year, the plan will pay 100 percent of in-network expenses and 100 percent of out-of-network expenses up to usual and customary charge limits and the lifetime maximum amount.

Dependent: To receive favorable tax treatment for HSA distributions you receive to cover your dependents' qualified medical expenses, a dependent is your spouse or other family members considered tax dependents. Under the Internal Revenue Code domestic partners are not generally considered to be tax dependents.

Health savings account (HSA): This is a tax-advantaged account you can use to help pay for qualified out-of-pocket medical expenses, provided you are covered under a high-deductible health plan (HDHP). (If coverage under the HDHP ends, you are no longer able to contribute to your HSA but you may continue to use it to pay expenses as long as there is a balance in your account).

High-deductible health plan (HDHP): This is a plan that, when combined with an HSA, provides insurance coverage and a tax-advantaged way to help save for future out-of-pocket medical expenses. HDHPs typically have lower premiums and higher annual deductibles than traditional health plans and must meet other federal guidelines, as described in this brochure.

Qualified medical expenses: Expenses that may be paid from your HSA tax-free that are listed as eligible for favorable tax treatment in IRS publication 502. These include many expenses that are not usually covered by your health plan (e.g., laser eye surgery, the cost of Medicare premiums and some travel expenses incurred for medical care), as well as your out-of-pocket expenses for deductibles and coinsurance.

Seed money: This is the amount that Progress Energy will contribute to your account during 2010, if you elect the HDHP. In the future, during each year's annual enrollment period, Progress Energy will announce the amount of the seed money, if any, that will be contributed for the following year. This will be based on an annual review of all company benefit program costs, national trends and benchmarking against other comparable companies.

Total out-of-pocket costs: Your total costs for a year, including annual premium contributions (if any) and deductible.

This guide is intended to highlight certain features of the company's benefit program and address specific questions you may have. Please refer to the summary plan descriptions for a complete statement of your rights and obligations. Official plan documents govern plan provisions and payment of plan benefits. Progress Energy, Inc. and Florida Progress Corporation reserve the right to amend, change or terminate its benefit plans at any time, subject to the provisions of ERISA and the bargaining unit's Memorandum of Agreement.