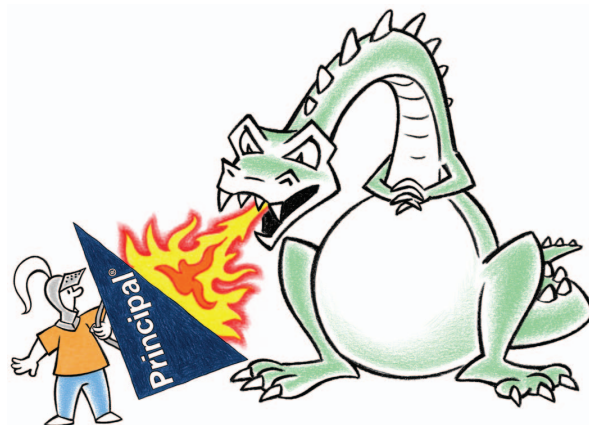


Principal Health Savings Accounts

Savings and Flexibility To Fight High Costs



Your health and the health of your loved ones is priceless. You probably do anything you can to maintain the health of your family. But rising health care costs have many people concerned about whether they can afford quality health benefits in the long run.

The good news is that a Principal Health Savings Account from the companies of the Principal Financial Group® (The Principal®) offers you an opportunity to take control of your health care to help control rising costs.

You can count on The Principal for quality benefit solutions. With over 65 years in the employee benefits marketplace, we offer a broad portfolio of competitive group products and outstanding service. And we're constantly looking for new ways to give you an edge.

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Welcome to the benefits of working with one of America's most experienced financial services companies!

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 enabled the creation of health savings accounts (HSAs), and ushered in an exciting new era in health benefits. A Principal HSA gives you an opportunity to accumulate significant tax-advantaged savings.

A Principal HSA offers you advantages you may never have had before. You can benefit from:

- **Freedom of choice** – to select your own providers, make educated decisions and share the responsibility for your good health.
- **Your own personal account** – where dollars grow tax-advantaged until you need them, now or in retirement.
- **A variety of investment options under one roof** – helping strike a desirable balance between easy access to funds and higher accumulation potential.
- **Outstanding customer service** – the support of a FORTUNE 500 company (April 2007) and the nation's 401(k) leader¹, with over 65 years experience in employee benefits.
- **A host of online tools and services** – designed to help you improve your health, make the most of your benefits and navigate more smoothly through the health care system.

When you have a health savings account with the Principal Financial Group, you'll quickly find that our experience in health benefits and account management gives you an edge.

Is an HSA right for you?

An edge for almost anyone

Extensive media attention to health savings accounts (HSAs) has helped to create a common misconception that HSAs are only for the healthy and the wealthy. The fact is, HSAs appeal to a variety of people, sick or healthy, at many income levels. An HSA may be a good fit if:

- You find the lower premiums of a high deductible health plan (HDHP) attractive.
- You have a medical condition that often results in hitting your annual deductible.
- You have medical expenses that your insurance policy does not cover.
- You would like to lower your tax burden and pay for some medical expenses tax-free.
- You want to accumulate money for future medical expenses, but you might need it soon.
- You have maxed-out your contributions to a 401(k) or other qualified retirement plan.

HSA and HDHP – A perfect combination

HDHP-HSA combinations can limit out-of-pocket (OOP) expenses for numerous doctor visits and expensive prescriptions. The lower cost of coverage can free-up money to put in your HSA so you can save taxes on medical expenses. Plus, you can pay for some medical expenses through your HSA that your health coverage may not allow. Health savings accounts give an edge to many kinds of people.

A tool to battle high medical costs

What is a health savings account?

Health savings accounts are the most exciting new tool to surface in the health benefits arena in quite some time. HSAs are tax-advantaged trust or custodial accounts created for the benefit of individuals covered under a qualified high deductible health plan. HSAs offer freedom of choice and future opportunities as no other health benefit does.

- You get the power to determine the best use of some of the money that you may once have simply spent on insurance premiums.
- Comparison shopping and making informed health care decisions could allow you to keep and accumulate some of your money for use in the future.
- The money in your account belongs to you, not your employer, which means it is always yours to use – even if you take another job or retire. Plus, if you are able to accumulate funds in your HSA, it can transfer tax-free to your spouse at time of death.

Who is eligible?

Most people can participate in an HSA by meeting a few simple requirements. When enrolling, you will be asked to certify that you are eligible to participate in an HSA, so if you have questions about the following requirements, please raise them during enrollment.

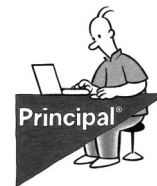
- You must be covered under a qualifying high deductible health plan (HDHP). For 2008, a qualified HDHP is medical coverage with the following characteristics:
 - Self coverage: minimum deductible of \$1,100 and out-of-pocket limit not to exceed \$5,600
 - Family coverage: minimum deductible of \$2,200 and out-of-pocket limit not to exceed \$11,200

- You cannot be covered under any medical insurance that is not a qualifying HDHP, and you cannot be covered as a dependent under someone else's non-qualifying insurance.
 - Don't confuse your medical coverage with other types of insurance that you can have and still be eligible. Coverages such as liability, worker's compensation, property and casualty, insurance for specific diseases, or insurance that pays a fixed amount per day of hospitalization are all permitted.
 - You may also have insurance coverage or other arrangements for accidents, disability, dental care, vision care and long-term care.
- You cannot be covered under any other type of health benefit that pays some of the expenses covered by a qualified HDHP: for example, a flexible spending account (FSA).
 - Your spouse's FSA or non-HDHP coverage may disqualify you from participation in an HSA if you are covered as a dependent.
 - "Limited FSAs" that do not cover medical expenses but cover dental, vision and child care expenses have been developed for use with HSAs and are allowed.
- You cannot be claimed as a dependent on anyone else's tax return.
- Upon enrolling in Social Security Medicare, you can no longer make HSA contributions. If you have an existing HSA, you can still use the money you have already accumulated.

MORE ELIGIBILITY INFORMATION

To learn more about whether you are eligible to participate and how much you can contribute, check out this handy web-based calculator:

www.principal.com/hsacalculator



Contributions

Where does the money come from?

HSA contribution rules are extremely flexible and are not as limited as flexible spending accounts or health reimbursement arrangements. Contributions may be made by:

- You
- Your employer
- Your family members
- Any combination of the above

Almost anyone can contribute to your HSA, but we recommend you discuss contributions by someone other than your employer or family with your tax advisor, as other rules may apply.

- Contributions to your HSA are not subject to federal income tax. The money you contribute is referred to as “pre-tax” dollars.
- The funds in the account can grow on a tax-favored basis. They can earn interest or other investment returns, which are not taxed if used for qualified medical expenses.

How do I make contributions?

The Principal offers several ways to contribute to your HSA, depending on your needs.

- Your employer can set up automatic payroll deductions that are deposited directly into your HSA. Money is taken out of your paycheck before taxes, lowering your earnings subject to taxes – somewhat like a 401(k).
- You can fill out deposit slips and contribute as is convenient for you. You can also make contributions for the current tax year up until April 15th of the following year (the tax filing deadline).
- If you have an Archer Medical Savings Account (MSA), those funds may be rolled-over into your HSA.



How much can I contribute?

The maximum contribution allowed to your HSA for 2008 is:

- \$2,900 if you have 'self' coverage
- \$5,800 if you have 'family' coverage

Regardless of when you enroll during the year, you can contribute the full amount for the year. However, failure to maintain eligibility will result in tax and penalties.

If you enroll, you should recheck the maximum funding levels each year. The amounts can be increased in the future based on the cost of living, which could allow larger contributions and more accumulation for future use.

Catch-up contributions

If you are 55 or older, you may make additional "catch-up" contributions to maximize the value of your HSA. In fact, if you turn 55 at any time during the year 2008, you can contribute an additional \$900 over your standard maximum. Regardless of when you enroll during the year, you can contribute the full amount for the year. However, failure to maintain eligibility will result in tax and penalties. Again, this amount is scheduled to increase over the next several years, so you should check annually on the amount you can contribute.

Options for investment

You need easy access to funds pay for medical expenses, but perhaps you want an opportunity for higher accumulation, too. Don't worry. You have a variety of HSA investment options, from checking accounts to certificates of deposit to mutual funds.

- **Checking accounts** – with a debit card and/or checks for ease of use
 - FDIC-Insured
 - Competitive interest rates
 - No minimum balance required
 - 24/7/365 access to account information online at www.principalbank.com
- **Certificates of deposit** – providing higher interest rates and the advantage of FDIC insurance
 - 1-year, 3-year and 5-year terms
 - Tiered interest rates – higher rates for higher balances
 - Minimum investment of only \$1,000 per CD
- **Mutual funds** – More than 40 options allow potential for higher accumulation
 - Minimum investment of only \$1,000 per fund

Dramatic accumulation potential

Would it interest you to know that studies have shown that American couples who retire today at age 65 will need over \$295,000 to pay for premiums and out-of-pocket medical expenses throughout their retirement?²

Over 30 years, a \$5,000 net annual contribution after qualified withdrawals could yield more than \$395,000 at a six percent rate of return. After age 65, funds from the HSA can be used for any purpose, although nonqualified withdrawals are subject to income tax.

NET ANNUAL HSA CONTRIBUTION *	2% RETURN	4% RETURN	6% RETURN
\$500	\$20,284	\$28,042	\$39,529
\$1,000	\$40,568	\$56,085	\$79,058
\$2,500	\$101,420	\$140,212	\$197,645
\$5,000	\$202,840	\$280,425	\$395,291

Savings in this example are based on 2%, 4% and 6% annualized rates of return over 30 years in an interest bearing account. Annualized rates of return may vary due to fees and compounding methods. Actual savings may vary. Maximum annual contribution limits may restrict the amount you can deposit.

* Amount contributed annually, less any expenses withdrawn.

Using your HSA

What can the funds be used for?

HSA funds can be used to pay deductibles and other out-of-pocket qualifying medical expenses as outlined in Section 213(d) of the Internal Revenue Code. These are the same medical expenses the IRS has determined are deductible for income tax purposes. Your HSA funds can be used to pay for qualified medical expenses for you and your dependents without tax or penalty. Within that general rule, your HSA funds can pay for:

- Expenses subject to the deductible and coinsurance under your HDHP
- Prescription drugs
- Certain medical expenses not allowed by your medical coverage, but included in Section 213(d)

An example of an expense the IRS may allow but is not covered by your HDHP is certain kinds of laser eye surgery. You may be able to pay with your HSA funds on a tax-advantaged basis.

HSA funds **cannot** be used to pay for most types of medical coverage. The exceptions to this rule are:

- Long-term care insurance
- Premiums for COBRA continuation
- Medical coverage while an individual is receiving unemployment
- Some types of insurance for Medicare-eligible individuals, including Medicare parts A or B, Medicare HMO coverage, and retirees' contributions to employer-sponsored coverage
 - Payment for Medigap policies with HSA funds is **not allowed**.

Qualified expenses include*

Following are some examples of expenses that can be paid with HSA funds, but each individual is responsible for determining whether or not a specific treatment or service is a qualified expense.

Acupuncture	Lead based paint removal
Alcoholism and drug treatment	Legal abortions
Ambulance costs	Legal fees (to authorize treatment for mental illness)
Artificial limbs and teeth	Some long-term care insurance**
Birth control pills	Medical insurance premiums while unemployed**
Braille books and magazines (the added cost of having materials created in Braille)	Medicare HMO coverage**
Car controls for the handicapped	Medicare parts A or B**
Chiropractors and chiropractic care	Mental nervous disorders
Christian Science practitioners	Nursing services
Contact lens solutions, cleaners and replacement coverage	Obstetrical expenses
Copays	Operations, if medically necessary
Crutches	Organ transplants
Deductibles	Over-the-counter drugs (to alleviate or treat illness or injuries)
Dental fees, exams and cleanings	Oxygen
Dental implants, dentures and bridges	Periodontal fees
Diagnostic tests	Premiums for COBRA continuation**
Experimental medical treatment	Prescription drugs (drugs with Rx #)
Eye examinations	Psychiatric care
Eyeglasses; reading and prescription sunglasses	Psychoanalysis
Guide dogs (purchase, training and maintenance)	Radial keratotomy
Hearing treatment including devices and batteries	Retiree contributions to employer-sponsored coverage**
Hospital services	Smoking cessation programs (includes nicotine gum or patches)
Invitro fertilization	Telephone for the deaf
Inpatient therapy	Transportation for medical care
Insulin injections	Vaccinations
Laboratory fees	Walkers
Lasik (laser) eye surgery	Wheelchairs
Lamaze classes (for mothers only)	X-ray

* And other items as may be allowed by the IRS under Section 213

** This item is not listed under Section 213(d), but is allowed by the health savings account regulations

Excluded expenses include:

The following is a partial list of expenses that are usually not covered under the HSA.

Cosmetic surgery or procedures	Medical savings account deposits
Dancing lessons (even if recommended by a doctor)	Over-the-counter drugs, products or formulas for general health (vitamins, beauty aids, lotion, toothpaste)
Diaper services	Personal use items
Domestic help fees (for non-medical services)	Physical or massage therapy for general health
Electrolysis	Premiums for Medigap insurance
Funeral expenses	Solutions for the care and maintenance of eyeglasses
Health insurance premiums	Supplements prescribed by alternative providers (i.e., Naturopath, Acupuncturist)
Homeopathic items	Swimming lessons (even if recommended by a doctor)
Household help	Teeth bleaching
Illegal operations and treatments	Union dues
Liposuction	
Marriage counseling	
Maternity clothes	

RESOURCE

For more information about qualified medical expenses we recommend checking IRS Publication 502, available at www.irs.gov, or talking with your tax advisor.

Nonqualified withdrawals

You can also use funds for other purposes, but you should be aware that nonqualified withdrawals are taxed as regular income, and individuals under age 65 pay a 10% penalty on the amount of the nonqualified withdrawal. After age 65, you can withdraw money from your HSA for any purpose and simply pay income taxes on the amount withdrawn without penalty.

You can make qualified withdrawals for yourself or any of your dependents, even if those dependents are not covered as a dependent under your HDHP.

KEEP RECORDS OF YOUR QUALIFIED WITHDRAWALS

By law, you are responsible for substantiating that HSA withdrawals are for qualified medical expenses. You should keep receipts and Explanation of Benefits statements as proof should you ever be audited.

What happens to money left over at the end of the year?

Unlike other health benefit arrangements, unused funds remain in the account and continue to grow tax-advantaged for future use. There is no “use-it or lose-it” aspect to an HSA as there is with flexible spending accounts or many reimbursement arrangements. Plus, there is no limit on the total account accumulation. You can allow it to grow as long and as large as you choose.

How can I maximize the value of my HSA?

The more educated your decisions about your health, health care and the use of your HSA funds, the more likely it is that you will be able to save money in your HSA and allow it to grow. These online resources can help you and your family make informed, educated decisions, before you spend your hard-earned dollars.

- **General HSA information** – Background to help you learn more about HSAs
- **Questions and answers** – Some of the most commonly asked questions about HSAs in one convenient location
- **HSA calculator** – Determine your eligibility, how much you can contribute, and how much you could save
- **Account interest rates** – The most current interest rate information regarding HSAs
- **Personal account review** – Password-protected account balances and more
- **Health assessment tool** – Identify health risks and access risk-related information
- **Principal Health NewsSM** – A vast library of health and wellness information, designed to help you make good choices

FOR MORE INFORMATION

Find these resources and more at: www.principal.com/health



The Principal Online Employee Benefits Center

- Use the **Login** button in the upper left-hand corner of www.principal.com to access secure information about your account balances and mutual funds.
- Logging in also gains access to *HealthyConnections* news and tools. Simply click on the **Health** tab at the upper right of your secure screen.
- You can preview some of our *HealthyConnections* tools at www.principal.com/health. Links to health tools are in the left-hand navigation box.

How does payment work?

Once enrolled, we recommend that you treat claims just as you do now. Doctors and service providers should submit claims to your insurance company, to ensure that claims are counted toward your HDHP deductible. You will also gain the benefit of any price reduction as a part of any applicable health networks or other arrangements.

When you receive an adjusted bill, you have several choices for payment. You can:

- Write a check on your HSA.
- Stop by your doctor's office and swipe your debit card for payment.
- Call your doctor's office and provide your debit card number for payment.
- Pay out of your own pocket and reimburse yourself at a later time.
- Pay out of pocket and not reimburse yourself so your HSA can continue to grow.

Many people will be interested in the last two options to allow for increased tax-advantaged accumulation that can be saved for future use – even into retirement.



One family of companies, many resources

It takes extensive resources to administer a health savings account effectively, and the Principal Financial Group is one of the few organizations that can offer you a simple, single-source solution. To help you quickly answer questions or get more information about your products and services with The Principal, please use the contact information below.

Checking, CD and mutual fund information

- Call 800-826-2364
- Visit us on the web at www.principalbank.com/hsa
- You can also learn more about mutual fund options for your HSA at www.principal.com/funds/pif.htm

Enrollment next steps

Following the enrollment meeting, there are a few steps you must take to complete HSA enrollment and begin taking advantage of your own personal Health Savings Account:

- 1. Complete the form, Enrollment for Principal HSA/Principal HSA Custodial Account Agreement** – Thoroughly review the information within the form, including the custodial agreement. It is important to be accurate in filling out the form, as you are attesting to the fact that you are eligible to participate in a health savings account. Be sure to sign the applicable lines in sections 3, 5 and 7.
 - You may also have the option to save time by submitting an online enrollment form. See your company's employee benefits contact for a Web link to the form.
- 2. Turn the enrollment form in to your employer** – Give your employer the first four pages and retain the rest yourself. Your employer will submit your form along with other paperwork and setup fees (if applicable) to complete the process.
- 3. Welcome kit arrival** – Your welcome kit will arrive approximately 10 days from the time your employer submits the enrollment forms to our Employer Service Center. Your kit will include a variety of materials to help you activate and use your account, set your contributions amounts and more.
- 4. Debit card and checks** – You can expect your checks and/or debit card to arrive approximately 10 days after your application arrives at Principal Bank and your account is opened.

If you have questions or need more information, please contact your employer's benefits administrator.

¹ The Principal ranks number one in total plans for all asset sizes among fully bundled 401(k) providers-2006 Spectrem Group analysis of fully-bundled 401(k) providers (companies that provide both administrative and investment services).

² *Healthcare Expenses In Retirement; The Use of HSA*, EBRI, July 2006



WE'LL GIVE YOU AN EDGESM

Principal Life Insurance Company, Des Moines, Iowa 50392-0002, www.principal.com

This material is a summary of health savings accounts. It is not a complete statement of the provisions or requirements of HSAs. It is intended to provide accurate and authoritative information in regard to the subject matter covered. The accuracy of the information is not guaranteed and is provided with the understanding that The Principal is not rendering legal, accounting, or tax advice. While this communication may be used to promote or market a transaction or an idea that is discussed in the publication, it is not a marketing opinion and may not be used to avoid penalties under the Internal Revenue Code. You should consult with appropriate counsel or other advisors on all matters pertaining to legal, tax, or accounting obligations and requirements. Custodial services for HSAs offered by Principal Life Insurance Company. Bank products and services provided by Principal Bank, Member FDIC, Equal Housing Lender. HSA monies held in a Principal Bank account are FDIC insured. Securities offered through Princor Financial Services Corporation, 800/247-4123, member SIPC. HSA monies held in an account at Princor Financial Services Corporation are not FDIC insured, have no bank guarantee and may lose value. Principal Life, Principal Bank, and Princor[®] are members of the Principal Financial Group, Des Moines, IA 50392.