KAISER PERMANENTE®

Important notice

Health plans are undergoing many changes due to the passage of the Patient Protection and Affordable Care Act. At Kaiser Permanente, we want to help you keep informed about how the federal health reform law affects your individual and family coverage.

We are currently working to implement the new federal health reform law in accordance with the schedule outlined by Congress. While many key aspects of the legislation will phase in over the next several years, some provisions will impact your benefits effective October 1, 2010. Among these provisions are: an expanded list of preventive care services, covered in network with no cost sharing; no lifetime maximums for designated essential health benefits; and the continuation of insurance coverage for dependent children up to age 26.

The information in this notice changes some of the information in the enclosed enrollment kit, which outlines our Kaiser Permanente for Individuals and Families coverage effective October 1, 2010, through December 31, 2011. There may be additional benefit and eligibility revisions based on further clarification from our federal regulators. If so, we will keep you informed of these changes.

If you have questions, please call **1-800-494-5314**, 8 a.m. to 8 p.m., Monday through Friday, and 9 a.m. to 5 p.m., Saturday, or call your broker.

Thank you for your interest in Kaiser Permanente.

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CHOOSE A PLAN

HMO PLANS WITH HSA OPTION

What a deductible plan with an HSA option is and how it works

IN THIS BROCHURE

- Understanding HSAs (health savings accounts)
- Meet Sarah Nelson
- Benefit highlights
- Meet the Howards
- The HSA difference

KAISER PERMANENTE®

Good health is an investment in **life**.

Save for future expenses with an HSA-qualified deductible plan

You may be looking for a plan that not only saves you money, but also allows you to save for health expenses today and in the future. Our HSA-qualified deductible plans, designed for people who want to take charge of their health care costs, may be right for you. When you enroll in one of these plans and choose to open a health savings account (HSA), you can use tax-free savings to pay for qualified medical expenses, such as deductibles, copays, and coinsurance.[1]

How an HSA-qualified plan works

An HSA-qualified plan works much like a traditional deductible plan. You pay full charges for certain services out of pocket until you reach your deductible, and then you can pay coinsurance. The main difference is that you can save money with HSA-qualified plans. This is because you can pay for qualified medical expenses—even those not covered by your health plan—with tax-deductible dollars. However, qualified expenses not covered by your health plan will not contribute to your deductible or out-of-pocket maximum.

All you have to do is:

- Enroll in an HSA-qualified health care plan.
- If you qualify, open a health savings account.
- Contribute tax-deductible dollars to this account.
- Use those tax-free funds to pay for qualified health care expenses.

What you don't use rolls over to the next year and continues earning interest.[2]

An HSA offers triple tax advantages

- Tax-deductible contributions to your account
- Tax-free investment earnings
- Tax-free withdrawals when funds are used for qualified medical expenses

Other advantages of opening an HSA

- **Portability.** The money belongs to you, so if you change plans, you can take your HSA with you.
- **Unused funds roll over.** There is no "use it or lose it" restriction each year. What you don't use stays in your account until you are ready to use it.
- **Control.** You decide when to put the money in and when to take it out.
- **Retirement savings.** The money in your account can be invested through the institution where you open it. And after age 65, you can use the funds, taxed at your ordinary income rate, for any reason without penalties.
- **Flexibility.** You can use the money in your HSA to pay for qualified medical expenses, even those your deductible plan does not cover.

[1]Tax references relate to federal income tax only. The tax treatment of health savings account contributions and distributions under state income tax laws differs from the federal tax treatment. Consult with your financial or tax adviser for more information.
[2]Earnings vary depending on the type of investment plan you opt for and/or the HSA provider you choose. Amount earned is based on the investment plan and market value, and in some instances, the account may actually lose money.

What are qualified medical expenses?

You can use an HSA to pay for deductibles, copays, coinsurance, and many supplies and services not covered by your health plan. Generally, these are expenses that would qualify for the medical and dental expense deduction on your income tax.

Here are just a few examples of HSA-qualified expenses:

- Certain over-the-counter medications
- Eyeglasses and LASIK surgery
- Dental and orthodonture care
- Acupuncture
- Chiropractic services
- Hearing aids

For a complete list, see *Publication 502, Medical and Dental Expenses* at www.irs.gov.

Who's eligible for an HSA?

To be eligible for an HSA, you need to meet the following requirements:

- You can't be enrolled in Medicare.
- You can't be eligible to be claimed as a dependent on someone else's tax return.
- You can't have additional health coverage that is not a qualified deductible plan (with certain exceptions).
- You can't have received benefits from the Department of Veterans Affairs in the past three months.

How to set up an HSA

You may set up your HSA through any financial institution that offers these accounts.[1] Kaiser Permanente has selected Wells Fargo Bank as our preferred health savings account trustee and administrator. For more information, visit the Wells Fargo Web site, wellsfargo.com/hsa.

[1]Kaiser Permanente does not provide or administer financial products, including HSAs, and does not offer financial, tax, or investment advice. Members are responsible for their own investment decisions. If a member uses his or her HSA debit card to pay for something other than a qualified medical expense, the expenditure is subject to tax and, for individuals who are not disabled or over 65, a 10 percent tax penalty. Please note that when Wells Fargo Health Benefit Services pays disbursements, it does not monitor whether they are for qualified medical expenses. It is the member's responsibility to determine whether expenses qualify for tax-free reimbursement from his or her HSA. For information about a Wells Fargo HSA, please contact Wells Fargo at 1-866-890-8308.

Meet Sarah Nelson

Sarah Nelson is working part-time while she pursues her graduate degree.[1] She's looking for an affordable health plan that will enable her to take charge of her health and her finances. Since she mostly needs coverage for preventive care, she decides to enroll in the HSA Option 3500/100% Self plan. This plan offers the lower premiums she wants as well as preventive care services for no charge from the first day of coverage. (An office visit copay may apply.)

- **Sarah's HSA:** Sarah opens an HSA with Wells Fargo and deposits the annual federal maximum of $3,050. She can deduct the total amount from her federal income tax return.[2,3]
- **Preventive care:** Over the year, Sarah sees her primary care physician for her annual checkup and gets her flu shot and tetanus booster. All services are no charge except for a $15 office visit copay.
- **Qualified medical expenses:** Sarah decides to use some of the money in her HSA to pay for services that her health plan doesn't cover, such as visits to her acupuncturist and chiropractor.

- **Online programs:** Sarah enrolls in My Health Manager on **kp.org** and signs up for the HealthMedia® Succeed™ program.[4] With this online wellness program, she develops a customized health improvement plan for herself.
- **Healthy Living classes:** Sarah also makes time to take some of the Healthy Living classes such as tai chi and yoga that are offered at the nearby Kaiser Permanente medical center.[5]

At the end of the year, Sarah has spent only $1,000 from her HSA. The remaining $2,050 rolls over to the next year when she can again deposit up to the annual federal maximum.

[1]This example is for illustrative purposes only. Individual situations will vary depending on the specifics of the health plan.
[2]For 2010, the federally established maximum contribution for an eligible individual with self-only coverage is $3,050, and the annual maximum contribution for an eligible individual with family coverage is $6,150. This annual maximum is indexed annually for inflation. For more information, please consult your financial or tax adviser.
[3]Tax savings relate to federal income tax only.
[4]Offered in collaboration with HealthMedia, Inc.
[5]Classes vary by location. Some classes may require a fee.

Benefit highlights

HMO WITH HSA OPTION PLANS FOR INDIVIDUALS

	HSA Option 3500/100% Self	HSA Option 5000/100% Self
Features		
Annual deductible	$3,500	$5,000
Annual out-of-pocket maximum	$3,500	$5,000
Lifetime benefit maximum	None	
Benefits	**Benefits with copays not subject to deductible Benefits with coinsurance subject to deductible**	
Preventive care (not subject to deductible)		
Preventive care visit	$15 office visit copay	
Preventive care services	No charge (Office visit copay may apply)	
All other covered services		
Coinsurance	No charge (after deductible)	

HMO WITH HSA OPTION PLANS FOR FAMILIES (2+)

	HSA Option 3500/100% Family	HSA Option 5000/100% Family	HSA Option 5000/80% Family
Features			
Annual deductible	$3,500	$5,000	$5,000
Annual out-of-pocket maximum	$3,500	$5,000	$9,000
Lifetime benefit maximum	None		
Benefits	**Benefits with copays not subject to deductible Benefits with coinsurance subject to deductible**		
Preventive care (not subject to deductible)			
Preventive care visit	$15 office visit copay		
Preventive care services	No charge (Office visit copay may apply)		
All other covered services			
Coinsurance	No charge (after deductible)		20% coinsurance (after deductible)

Meet the Howards

Vera and Joe Howard are in their early 50s.[1] When Vera is laid off, Joe takes a buyout so they can enjoy early retirement. So now, after years of group coverage, they're looking for an individual health plan.

The Howards want to minimize their health care costs, so they enroll in an HSA-qualified HMO plan, HSA Option 5000/100% Family.

Their HSA: Joe opens an HSA with Wells Fargo and deposits the federal family maximum of $6,150, which he can deduct from his federal income tax.[2,3] Any interest that the HSA earns is tax free. Plus, the couple can withdraw funds tax free to pay for qualified medical expenses.

- **Meeting the deductible:** The couple must pay full charges until they meet the $5,000 family deductible. They simply present their HSA Visa debit card when they receive services, and the payments are automatically deducted from the tax-deductible $6,150 that Joe had deposited into their HSA.
- **Preventive care:** Joe and Vera each get annual checkups. Their physicals are a $15 copay and are not subject to the deductible, because they are preventive care. Vera also gets a mammogram, which is no charge and not subject to the deductible.
- **Treatment:** Vera's mammogram detects an irregularity that requires treatment. Over the year, her medical bills total $50,000. They pay the first $5,000 (their deductible) from their HSA.
- **Meeting the OOPM:** Because the Howards have an HSA-qualified plan, their $5,000 deductible applies toward their out-of-pocket maximum (OOPM), which is also $5,000. Once they meet their deductible, they simultaneously meet their OOPM, so neither of them has to pay anything for covered medical expenses for the rest of the year.
- **Tax savings:** They only pay $5,000 of the $50,000 in medical bills out of pocket—and those payments are in tax-deductible dollars. At the end of the year, the remaining $1,150 in their HSA rolls over to the next year.

Vera feels fortunate that her Kaiser Permanente doctor urged her to get a mammogram. It ensured her good health for years to come.

[1]This example is for illustrative purposes only. Individual situations will vary depending on the specifics of the health care plan.
[2]For 2010, the federally established maximum contribution for an eligible individual with self-only coverage is $3,050, and the annual maximum contribution for an eligible individual with family coverage is $6,150. This annual maximum is indexed annually for inflation. For more information, please consult your financial or tax adviser.
[3]Tax savings relate to federal income tax only.

The HSA **difference**

Key distinctions in how deductible plans and deductible plans with HSA work

	DEDUCTIBLE PLANS	HSA-QUALIFIED PLANS
Out-of-pocket maximums (OOPMs)	With deductible plans, your out-of-pocket payments to fulfill your deductible **do not** count toward your OOPM.	With HSA-qualified plans, the amount paid toward your deductible **does** count toward your OOPM.
HSA	You cannot open an HSA with a traditional deductible plan.	If you're eligible, you can open an HSA with an HSA-qualified deductible plan.
Tax savings	You pay for medical expenses with taxed income.	Money you deposit into your HSA is deductible from your federal income tax.

For more detailed information about how plan types work, please consult the *Evidence of Coverage*, which you will receive upon acceptance.

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