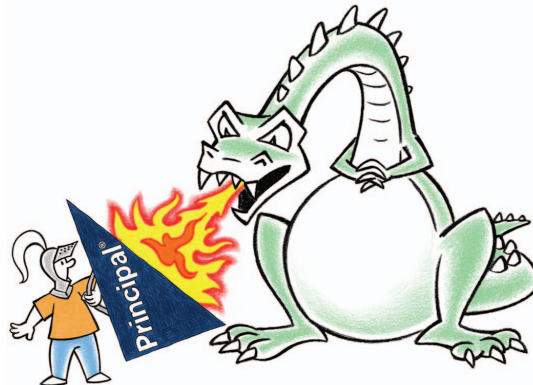


Principal® Health Savings Accounts

Defend Yourself Against High Health Costs



Your health and the health of your employees is priceless. You probably do anything you can to maintain the health of your family. But rising health care costs have many employers concerned about whether they can continue to provide quality 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 and your employees an opportunity to take control of your health care to help control rising costs.

You can count on The Principal to provide you with solutions that help you attract and retain quality employees. With more than 65 years in the employee benefits marketplace, we offer the expertise of local benefit professionals, a broad portfolio of competitive products and outstanding service. And we're constantly looking for new ways to give you an edge.

Give employees an incentive to control health care costs

Health care costs are spiraling out of control – led by higher prescription drug costs, medical costs, malpractice premiums and the changing demographics of America.

When combined with a qualified high deductible health plan (HDHP), a Principal Health Savings Account (HSA) is a powerful, yet affordable solution. Best of all, a Principal HSA can start your employees actively working toward cost-control – while delivering a number of additional advantages:

- Enticing tax advantages for both you and your employees
- A single-source solution that includes an interest bearing checking account, certificates of deposit, and more than 40 mutual fund options
- The investment and administration expertise of the nation's 401(k) leader*
- Integrated knowledge of health benefits, plus resources to enable more informed decisions
- Powerful, easy-to-use administration through our proprietary online platform
- Outstanding service after the sale
- Education, enrollment and implementation resources that make the process easy
- Broad participation and contribution rules
- Compliance and legislative knowledge that will be invaluable as HSAs evolve

Ultimately, the Principal HSA gives you the best opportunity to achieve the goal of all HSAs: driving long-term health care cost control. Choose an HSA that is as diverse as the needs of the people you employ. When you choose The Principal, we'll give you an edge.

Struggling with the rising cost of health care?

Searching for easy-to-administer benefit solutions?

Currently maxing out your 401(k) investment opportunities?

Offering or considering offering a high deductible health plan?

If the answer to any of these questions is, "Yes,"
then a Principal HSA may be right for your company.

* 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).



Advantages for you – and your employees

Who can use an HSA?

The great news is that qualifying for eligibility only requires meeting a few simple rules:

- Participants must be covered under a qualifying high deductible health plan.
- Participants cannot be covered as a member or dependent under any other medical benefit that is not a qualifying HDHP or that covers the same medical expenses as their HDHP.
- Participants cannot be claimed as a dependent on anyone else's tax return.
- Participants cannot contribute to an HSA once they have enrolled in Social Security Medicare, but they can use the money in an existing HSA after enrolling.

Plus, unlike flexible spending accounts and health reimbursement arrangements, sole proprietors, partners, or owners of more than 2 percent of a subchapter S corporation **can** participate, and receive the same benefits and tax advantages as their employees.

Why use an HSA?

Health savings accounts give several tax advantages to people covered by qualified high deductible health plans. HSAs allow you and your employees to:

- Contribute pre-tax money into individually owned accounts.
- Invest funds in a variety of vehicles where they can grow tax-free.
- Withdraw and use funds for qualified medical expenses, tax-free.

In addition to the tax advantages, HSAs give your employees an incentive to become educated health care *consumers*. The more engaged your employees become in their health and care, the more likely it is they will be able to save money in their HSA.

Most employers quickly realize the basic advantage they get in lower medical premiums when they first implement a high deductible health plan. But you should know there are additional tax advantages to reap by adding a health savings account.

Tax advantages for you

- You pay no social security “match” on amounts put into the HSA by employees*
- Contributions you make to the HSA are tax-deductible

EMPLOYER TAX EXAMPLE		
ABC Company with 15 employees	Without HSA	With HSA
Annual employee contributions	\$500,000	\$500,000
HSA employee contributions	NA	- \$40,000 ¹
Taxable salaries	\$500,000	\$460,000
FICA tax @ 7.65%	\$38,250	\$35,190
FICA tax savings		\$3,060
HSA employer contributions	NA	\$15,000 ²
Tax deduction on contribution		\$5,250 ³
Total tax savings	-	\$8,310

Tax advantages for your employees

Properly structured, you and your employees pay none of these taxes when paying for qualified medical expenses with your HSA – regardless of who contributed the money.

- Reduce their federal income tax and reduced state income tax where applicable
- Reduced Social Security tax*

A person in the 35% tax bracket with family coverage who contributes \$5,650 to their HSA can save \$1,977 in taxes – making the net, after-tax cost of the contribution \$3,673.

EMPLOYEE TAX EXAMPLE				
COVERAGE	CONTRIBUTION	TAX BRACKET	TAX SAVINGS/YR.	20-YR. SAVINGS
Family	\$5,650	35%	\$1,977	\$39,550
Family	\$5,650	25%	\$1,412	\$28,250
Self	\$2,850	35%	\$997	\$19,950
Self	\$2,850	25%	\$712	\$14,250

*When offered in combination with a Section 125 Plan (a.k.a. salary reduction or cafeteria plan)

Dramatic accumulation potential

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.⁴ With the advantages that an HSA offers, you can help your employees better prepare for these retirement expenses.

Over 30 years, a \$5,000 net annual contribution after qualified withdrawals could yield more than \$395,000 at a 6% rate of return. After age 65, funds from the HSA can be used for any purpose, although non-qualified withdrawals are subject to income tax.



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



Three keys to success

Some companies simply offer you a bank account and call it an HSA. By contrast, Principal HSAs incorporate three key elements **you need** for a successful program. These keys add flexibility, simplify administration and eliminate many of the headaches associated with benefit programs.

Health

Unlike a stand-alone bank or investment firm, our insurance expertise helps us understand the relationship between your health benefits and a health savings account. As an administrator, Principal Life understands how you'll most likely need to use your funds, not just where to save them. We use this knowledge to build and refine an HSA that gives you an edge through a variety of investment vehicles and options that take the entire health continuum into consideration. This helps you maximize your HSA's effectiveness and integrate it with your health benefits.

The Principal HSA also draws on a wealth of legislative and compliance knowledge in the health benefits industry. This ensures that as HSAs continue to evolve and change over time, your HSA will be on the cutting edge – making it more valuable to you in the long term.

Additionally, when your employees make informed decisions about their health and care, it's more likely they will be able to save money in their HSA and allow it to grow. We've built more than 65 years of employee benefits experience into tools and resources to help your employees make informed decisions about their health and health care. It's all housed on the same website where your employees can check their HSA balances, interest rates and more:

- An extensive online library with articles on topics from men's health to fitness to pregnancy
- Over 200 online tools and calculators
- Prescription drug information and much more!

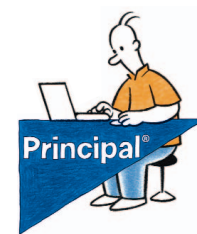
Savings

Some companies' HSA administration systems can leave you feeling burned out. But the Principal HSA saves you time, effort and hassle – while you and your employees save money. We've leveraged our administrative and investment knowledge to build one of the strongest HSA platforms available.

- **Powerful, easy-to-use administration platform** – The Direct Connect system helps you easily manage an HSA from the comfort of your desktop.
 - Features online technology based on our award-winning 401(k) platform
 - Built using additional feedback from employers like you – making it a snap to use
 - Saves you time, effort and paperwork
 - Allows you to transmit funds electronically, report contributions and transfer funds into employee accounts online – no more sending checks for contributions or fees
 - Employs state-of-the-art encryption software so your information remains private and secure
 - You control the data entered – since no one re-enters the data, it's accurate every time

FOR MORE INFORMATION

You can take an online tour of the Principal Direct Connect system at www.principal.com/directconnect



- **Materials and ongoing support** – Everything needed for a simple, powerful program
 - **Education** – Instructive brochures and flyers help you understand the advantages of HSAs and how to explain them to your employees. On-line tools, guides and brochures help employees understand the value of an HSA and how they work.
 - **Enrollment** – Simple, informational kits guide you through the enrollment process and help you set the tone for a successful launch. An easy-to-use enrollment brochure makes the process simple for your employees and help increase participation. Plus, you can choose between online enrollment and a paper process.

- **Implementation** – Step-by-step “how to” instructions help you understand how the process works and what to do. Easy-to-use forms make launching this benefit a breeze. Turnkey welcome kits for your employees explain account use, debit cards, checks, answers to frequently asked questions, and customer-care information.
- **Ongoing care** – HSA experts are available to you via phone, e-mail, and mail. Plus, we offer extensive information via the Internet.
- **Reporting** – You won’t have to track your employees’ accounts on an annual basis, because we provide year-end statements to them for tax purposes. At every turn, we’re dedicated to removing the paperwork hassles for you.

Accounts

Your employees need investment options for each of the stages they face in life. As people age, or as their health changes, their needs change. The HSA portfolio we've assembled reflects on our more than 60 years experience helping people with their health and retirement needs.

- **People with frequent medical expenses** need day-to-day access to their funds.
 - An interest-bearing checking account with a VISA® debit card and checks offers easy use
 - No minimum deposit required to open an HSA
 - Competitive interest rates paid on all balances, with higher rates as balances grow
 - FDIC-insured up to \$100,000 per depositor
 - Flexible deposit options through Direct Connect or deposit slips
- **Customers who accumulate funds** in their HSA may want long-term investment options.
 - More than 40 mutual fund options are available to meet this need
 - Low minimum balance requirements – \$1,000 initial investment for each fund
 - Learn more about mutual funds at www.principal.com/funds/pif.htm
- **Clients approaching retirement** or those wanting a higher rate of return with the greater security of FDIC insurance may need an additional solution.
 - Certificates of deposit (CD) are available to meet this need
 - Competitive, guaranteed interest rates on 1-year, 3-year and 5-year terms
 - Make additional contributions once per year with no change in maturity date or interest rate
 - FDIC-insured up to \$100,000 per depositor
 - Minimum balance of \$1,000 per CD

FOR MORE INFORMATION

To learn more about Principal HSAs, ask your broker for more information today, or call our HSA Hotline at 800-654-4278, extension 46230.

You can also learn more about HSAs on the web at www.principal.com/grouphsa

End notes

- ¹ Based on eight employees contributing \$5,000 annually
- ² Based on a \$1,000 contribution for 15 employees
- ³ Based on 35% tax rate
- ⁴ *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 brochure provides general information about health savings accounts (HSA). Contact your local sales representative for more information, including availability of specific products in your state, costs and a full proposal outlining the coverage. 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. 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.