

Health Savings Account (HSA) Information Booklet



Health Savings Account Information Booklet for 2009

The information presented in this booklet about the High-Deductible Health Plan option and Health Savings Account is not intended to provide tax advice. All descriptions of tax rules contained herein are intended to be used for general informational purposes and are based on tax rules in effect on October 1, 2008. Please consult your tax advisor to discuss what is best for your situation.

This booklet contains selected highlights of Duke Energy's Medical Plan. If any statement herein, or any other communication, conflicts with applicable plan documents, the plan documents shall govern. Duke Energy retains the right to amend, modify or terminate its benefits plans in any respect and at any time, and neither its benefits plans, nor your plan participation shall be considered a contract for future employment.

The Health Savings Account described in this booklet is not a plan that is covered by the Employee Retirement Income Act of 1974, as amended ("ERISA").

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HEALTH SAVINGS ACCOUNT INFORMATION BOOKLET FOR 2009

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INTRODUCTION

This booklet reviews Duke Energy's High-Deductible Health Plan (HDHP) Medical Plan option and provides an in-depth look at how this option and the health savings account (HSA) offered through Duke Energy work together. It also includes information about resources and tools available to help you decide if the HDHP option and HSA make sense for you. Please review this guide carefully.

Please be aware that it is YOUR responsibility to:

- Review all materials (both those provided by Duke Energy and those available from other sources) and determine your eligibility to elect to contribute to an HSA
- Not exceed the Internal Revenue Service (IRS) maximum HSA contribution amount
- Keep receipts and documentation of transactions related to withdrawals from your HSA
- Consult a tax advisor regarding the tax consequences associated with an HSA

ELIGIBILITY

To be eligible to elect to contribute via pre-tax payroll deductions to the HSA offered through Duke Energy at this time, you must elect the HDHP option under Duke Energy's Medical Plan. Generally, active employees are eligible to elect the HDHP option, however, employees eligible for the CIGNA International Medical Plan option and employees represented by IBEW 1393 or IBEW 1347 are not eligible to elect the HDHP option at this time. Additionally, to establish and contribute to the HSA Duke Energy offers, you must be paid through the Duke Energy payroll system and elect to make HSA contributions via pre-tax payroll deductions. Generally, employees who are billed directly for their health and insurance coverage on an after-tax basis (such as employees receiving Long-term Disability benefits and former employees enrolled in COBRA coverage) are not eligible to elect to contribute to the HSA Duke Energy offers.

Additionally, per IRS regulations, you cannot contribute to an HSA if you are:

- covered in any manner, even as secondary coverage, by a medical plan that is not a high-deductible health plan (except for certain limited, permitted coverages noted below)
- claimed or eligible to be claimed as a dependent on anyone else's tax return
- contributing to or eligible for benefits (i.e., access to funds) from most health care reimbursement accounts (e.g., general-purpose health flexible spending accounts (Health FSAs) and health reimbursement arrangements (HRAs)), including that of your spouse
- receiving Medicare or some Veterans Administration medical benefits

You may contribute to an HSA if you have certain limited coverages approved by the IRS, such as dental, vision, long-term care insurance, Employee Assistance Plan (EAP), disease management, and wellness programs.

When you enroll in the HDHP option, you may also enroll your spouse or domestic partner and eligible dependent children. However, because domestic partners are generally not tax dependents under federal law, special tax rules apply to HSA distributions for health care expenses incurred by domestic partners as indicated on page 16.

As stated above, you are not eligible to make HSA contributions if you are contributing to, or have access to use funds from, most Health FSAs and HRAs, including that of your spouse. If you are a Legacy Cinergy employee participating in the Post-Retirement Health Reimbursement Account Program, your participation in that program will continue and does not prevent you from being able to elect the HDHP option and contribute to an HSA while you are employed by Duke Energy. It is important to note that when you have access to your HRA balance to pay eligible health care expenses (generally, when you terminate employment after having attained age 50 with five or more years of service), you will no longer be eligible to contribute to an HSA. At that time, if you have accumulated a balance in your HSA, you will have access to both your HRA and HSA balances from which you can pay eligible health care expenses. You may again become eligible to contribute to an HSA at a later date if you use up your HRA balance and remain otherwise eligible to contribute to an HSA (e.g., covered under a high-deductible health plan, not enrolled in Medicare, etc.).

The Duke Energy HDHP option is not available to retired employees. Enrollment in a high-deductible health plan is a requirement to contribute to an HSA, however, it is not a requirement to access the funds in an HSA. (See *Growing your HSA – Contributions* beginning on page 7 and *Using your HSA – Making Withdrawals* on page 14 for additional information).

OVERVIEW OF THE HIGH-DEDUCTIBLE HEALTH PLAN (HDHP) MEDICAL PLAN OPTION

The following is a brief overview of the HDHP option offered under Duke Energy's Medical Plan. The HDHP option is administered by Blue Cross and Blue Shield of North Carolina (BCBSNC). The HDHP option offers the same BlueCard network of doctors and hospitals available under the Duke Energy PPO and EPO Medical Plan options. This is the largest network offered by BCBS, so that you have access to network providers wherever you go across the U.S. and in more than 200 countries and territories worldwide. To find a network provider, access the BCBSNC Web site from the Duke Energy Portal's Employee Center-Health & Insurance page. Additional information about the HDHP option can be found in the Duke Energy Corporation Medical Plan's Summary Plan Description

The HDHP option provides both in- and out-of-network coverage, just as the PPO options do. However, the HDHP option works differently than the PPO options in these three key ways:

1. With the exception of certain in-network preventive care services which are covered at 100%, all covered medical expenses are subject to an annual deductible and coinsurance;
2. Under Individual + Spouse/Domestic Partner, Individual + Child(ren), or Individual + Family coverage, the annual family deductible must be met before benefits are payable for any covered person (with the exception of certain in-network preventive care services which are covered at 100%); and
3. Once the applicable annual deductible is met, there are no copays, just coinsurance for all covered services (with the exception of certain in-network preventive care services which are covered at 100%) up to the out-of-pocket maximum.

Summary of the HDHP Option

Plan Provisions	HDHP Option for 2009	
	In-Network	Out-of-Network
Annual Individual Deductible	\$2,500	\$5,000
Annual Family Deductible	\$5,000	\$10,000
Coinsurance (plan pays)	90%	70%*
Annual Individual OOP Maximum (including deductible)	\$4,000	\$8,000
Annual Family OOP Maximum (including deductible)	\$8,000	\$16,000
In-Patient Admission Ded/Copay	Deductible/Coinsurance	Deductible/Coinsurance
Emergency Room Visit	Deductible/Coinsurance	Deductible/Coinsurance
Office Visit (Primary)	Deductible/Coinsurance	Deductible/Coinsurance
Office Visit (Specialist)	Deductible/Coinsurance	Deductible/Coinsurance
Preventive Care	100%	70%*
Retail Prescription Drug	Deductible/Coinsurance	Deductible/Coinsurance
Mail Prescription Drug	Deductible/Coinsurance	Deductible/Coinsurance

* Subject to reasonable and customary limits
 OOP = Out-of-pocket

Note: Under the HDHP option, as with other Medical Plan options, prior plan approval is required in order for certain procedures (such as hospital stays, inpatient 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 1-888-554-3202. If you don't, plan benefits may be reduced or denied. Information about prior plan approval can be viewed at www.bcbsnc.com/members/duke-energy click on *Prior Plan Approval*.

Preventive Care Benefit

The following are examples of preventive care services which are covered at 100% under the HDHP option when received from in-network providers and filed by your provider as preventive care. They are not subject to the annual deductible or coinsurance:

- Annual adult physical exam, in addition to the following annual preventive visits/procedures:
 - OB/GYN visit and pap test
 - Mammography screening
 - Prostate screening
 - Colonoscopy
 - Other preventive testing as age/gender appropriate
- Well-baby/well-child exams
- Standard immunizations

Annual Deductible

Under the HDHP option, before the plan pays benefits, you must first meet an annual deductible (see preventive care exception above):

- \$2,500 if you have Individual Only coverage
- \$5,000 if you have Individual + Spouse/Domestic Partner, Individual + Child(ren), or Individual + Family coverage – **No benefits will be payable from the plan until you and/or your covered dependents have incurred covered expenses in excess of the total annual family deductible amount.**

Coinsurance

Once you meet your annual individual or family deductible under the HDHP option, the plan will pay 90% of covered medical services received within the BlueCard network (except for certain in-network preventive care which is covered at 100% with no deductible, as described above) and 70% of covered medical services received outside the plan network. Coverage received out-of-network is subject to usual and customary charge limits.

Out-of-pocket Maximum Limit

Under the HDHP option, if total out-of-pocket costs (annual deductible and coinsurance combined) for in-network covered services reach \$4,000 for individuals or \$8,000 for families during the calendar year, the plan then pays 100% of covered medical expenses for the rest of that year. (For care received outside the BlueCard network, the annual out-of-pocket maximums are \$8,000 for an individual and \$16,000 for families.)

Employee Contributions

Most employees will find that the HDHP option will have the lowest employee contributions among the Medical Plan options offered by Duke Energy. You might consider using the amounts you save on Medical Plan contributions to make tax-free contributions to your HSA.

Blue Cross and Blue Shield of North Carolina tools:

With the full cost of non-preventive medical services being yours to bear under the HDHP option until you satisfy the applicable annual deductible, you will want to be knowledgeable about treatment options and choose wisely on where and how you receive care. The following tools are available when you log onto the BCBSNC Web site to assist you in decision making:

Health Care Cost Estimator: Want to know how much health care 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.

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, treatment options, prescription drug information, first aid techniques and more.

OVERVIEW OF THE HEALTH SAVINGS ACCOUNT (HSA)

The HSA offered through Duke Energy is administered by ACS and The Bank of New York Mellon (“Mellon”). Pairing the HDHP option with an HSA gives you a way to exercise choice over your health care spending *and* provides a tax-favored way you can pay for your current and future health care expenses.

Brief Summary of the HSA

- When you elect the HDHP option, you may also elect to contribute to an HSA. (*Note: You are not required to contribute to the HSA to participate in the HDHP option.*)
- You may elect to contribute to your HSA on a pre-tax basis through payroll deductions by designating a dollar amount from \$120 per year up to the applicable annual limits discussed below. You may change your pre-tax contribution amount prospectively at any time during the year.
 - Duke Energy will match your pre-tax payroll contributions each pay period that you contribute up to an annual total of:
 - \$500 if you have Individual Only HDHP option coverage
 - \$1,000 if you have Individual + Spouse/Domestic Partner, Individual + Child(ren), or Individual + Family HDHP option coverage
 - If you are age 55 or over at any point during the plan year, you may make additional pre-tax “catch-up” contributions of up to \$1,000 for the year.
- Duke Energy will make a one-time deposit of Company seed money to your HSA as follows:
 - \$500 if you have Individual Only HDHP option coverage
 - \$1,000 if you have Individual + Spouse/Domestic Partner, Individual + Child(ren), or Individual + Family HDHP option coverage
 - If you elect during annual enrollment in the fall to make pre-tax contributions to an HSA via payroll deductions, you will see your one-time deposit of Company seed money to your HSA in January.
 - If the first time you elect to make pre-tax contributions to an HSA via payroll deductions is mid-year, you will see your one-time deposit of Company seed money to your HSA as soon as administratively practicable following your election.
- If you earn a Duke Energy Live Well incentive for a plan year in which you enroll in the HDHP option and elect to make pre-tax contributions to an HSA via payroll deductions, Duke Energy will contribute the applicable amount of that Live Well incentive to your HSA rather than to a Health Care Spending Account (“HCSA”) since you cannot contribute to an HSA and have access to funds in an HCSA at the same time.
- *You are always 100 percent vested in the contributions you and Duke Energy make to your HSA.*

Note: Company seed money is designed to help jumpstart your HSA and will also assist with any early expenses and initial administrative fees that will be charged against your HSA (See *HSA Account fees and expenses*, page 19.)

Growing your HSA – Contributions

Your HSA can grow with your pre-tax contributions via payroll deductions (if you elect to contribute), contributions from Duke Energy (seed money, matching contributions and any

applicable Live Well incentive amounts) and any other contributions made to your FDIC-insured HSA checking account (see below), plus interest. You generally pay no tax on contributions made to your HSA whether they are your pre-tax contributions via payroll deductions, contributions from Duke Energy, or contributions sent by check to Mellon from you or someone else on your behalf as long as you are HSA-eligible at the time the contributions are made. In addition, if your HSA checking account balance reaches a minimum of \$2,000, you may choose to invest all or a portion of your HSA balance that exceeds \$2,000 in one or more mutual fund investment options, and applicable investment earnings (or losses) will be credited to your account. Any interest and/or investment earnings will accumulate on a tax-free basis, without limit, year after year, even if you are no longer eligible to make contributions.

Your contributions:

When you elect to contribute to an HSA, you will elect the amount of your pre-tax payroll contributions. This amount may range from a minimum of \$120 per year up to the annual maximums listed below.

Changing your pre-tax contribution amount:

You may change prospectively the amount you contribute to your HSA via pre-tax payroll deduction at any time after 1/1/2009 by visiting the Life/Work Events section of the myHR home page (accessible through the Duke Energy Portal) or by calling the myHR Service Center. Pre-tax payroll deduction changes will be effective as soon as administratively practicable.

Catch-up contributions:

Participants who are age 55 or over at any point during the year may make additional “catch-up” contributions to their HSA in excess of the maximum that applies to other participants. For those age 55 or over during 2009, the catch-up contribution limit is \$1,000.

Company contributions – seed money:

If you elect to make pre-tax contributions in 2009 via payroll deduction and establish an HSA with Mellon, Duke Energy will make a one-time tax-free contribution of “seed money” to your HSA. The amount of such seed money contribution will be as follows:

Individual Only HDHP Option Coverage: \$500

Individual + Spouse/DP, Individual + Child(ren) or Individual + Family HDHP Option Coverage: \$1,000

Company contributions – match:

Duke Energy will match your pre-tax payroll contributions to your HSA each pay period that you contribute, up to an annual total of:

Individual Only HDHP Option Coverage: \$500

Individual + Spouse/DP, Individual + Child(ren) or Individual + Family HDHP Option Coverage: \$1,000

Company contributions – Live Well incentives:

If you earn a Duke Energy Live Well incentive for a plan year in which you enroll in the HDHP option and elect to make pre-tax contributions to an HSA via payroll deductions, Duke Energy will contribute the applicable amount of that Live Well incentive to your HSA rather than to an

HCSA since you cannot contribute to an HSA and have access to funds in an HCSA at the same time. If you elect the HDHP option during annual enrollment in the fall but do not elect at that time to make pre-tax contributions to an HSA via payroll deductions, Duke Energy will contribute the applicable amount of any Live Well incentive you earned for the next year to an HCSA for you. This means that you will not be eligible to contribute to an HSA at any point during that year, even though you are enrolled in the HDHP option, because you cannot contribute to an HSA and have access to funds in an HCSA at the same time.

Other contributions to your HSA:

You – or anyone else, including family and friends – may send additional contributions to your HSA directly to Mellon, as long as total contributions to your HSA in any given year do not exceed the applicable IRS annual limit (see *Annual maximum HSA contribution limits*, page 9). Mellon can accept other contributions to your account for a calendar year up until April 15 of the following year. These other contributions to your account should be tax deductible by you. Consult your tax advisor for more information.

Type of HSA contribution and tax treatment when credited to your account:

- Your pre-tax contributions through pre-tax payroll deduction: Tax-free
- Duke Energy seed money, matching contributions and any applicable Live Well incentive amounts: Tax-free
- Interest or investment earnings: Tax-free
- Other contributions made by check directly to Mellon
 - Tax-deductible on your federal income tax return (and most state income tax returns).

This means that if you contribute \$1,300 to an HSA via pre-tax payroll deductions, you would save an estimated \$424 in taxes (assumes federal income tax rate of 25 percent; state income tax rate of 0 percent; and FICA tax rate of 7.65 percent). If you are also subject to state income tax, your tax savings may be greater.

Annual maximum HSA contribution limits:

You can contribute on a pre-tax basis via payroll deductions, and you have the ability to change your pre-tax contribution amounts at any time. However, because of the significant tax advantages of HSAs, the IRS sets contribution limits each year. For 2009, those limits on total contributions to an HSA are as follows:

IRS Annual Maximum Contribution - 2009

Employee Age	Annual Maximum Contributions per HDHP Coverage Category			
	Individual Only	Individual + Spouse/DP	Individual + Child(ren)	Individual + Family
If employee is under age 55	\$3,000	\$5,950	\$5,950	\$5,950
If employee is age 55 or over*	\$3,000 + \$1,000	\$5,950 + \$1,000	\$5,950 + \$1,000	\$5,950 + \$1,000

* The catch-up contribution applies to the individual. If your spouse is eligible to make a catch-up contribution also, he/she would need to establish and contribute to his or her own HSA. The annual HSA catch-up contribution limit for individuals who are age 55 or over at any point during the year is \$1,000 for 2009.

Because Duke Energy will make contributions to your HSA on your behalf in the form of seed money, matching contributions and any applicable Live Well incentive amounts, limits for employee pre-tax contributions via payroll deduction are set lower than the IRS limits to take these Duke Energy contributions into consideration. For 2009, Duke Energy will set the following employee payroll contribution limits:

Duke Energy Annual Maximum Contribution - 2009

Employee Age	Annual Maximum Contributions per HDHP Coverage Category			
	Individual Only	Individual + Spouse/DP	Individual + Child(ren)	Individual + Family
If employee is under age 55	\$1,800	\$3,750	\$3,750	\$3,750
If employee is age 55 or over*	\$1,800 + \$1,000	\$3,750 + \$1,000	\$3,750 + \$1,000	\$3,750 + \$1,000

* The catch-up contribution applies to the individual. If your spouse is eligible to make a catch-up contribution also, he/she would need to establish and contribute to his or her own HSA. The annual HSA catch-up contribution limit for individuals who are age 55 or over at any point during the year is \$1,000 for 2009.

Here’s how the amounts above were derived:

- Individual Only HDHP coverage: \$3,000 IRS max - \$500 seed - \$500 max Company matching contribution - \$200 max Live Well incentive amount = \$1,800
- Individual + Spouse/DP, Individual + Child(ren) and Individual + Family HDHP coverage: \$5,950 IRS max - \$1,000 seed - \$1,000 max Company matching contribution - \$200 max Live Well incentive amount = \$3,750

If you do not maximize your Company contributions and, as a result, do not reach the IRS limits, you can also make contributions directly to your HSA by personal check mailed to Mellon until the total contributions made to your HSA reaches the applicable IRS limit for the year. Although not made on a pre-tax basis, these contributions should be deductible on your federal income tax return.

Monthly determination of applicable contribution limit:

Your eligibility to contribute to an HSA for each month is generally determined by whether you have HDHP coverage on the first day of the month. Your maximum contribution for the year is the greater of: (1) *the full contribution*, or (2) *the pro rated amount*. The full contribution is the maximum annual contribution for the type of HDHP coverage you have on December 1. The pro rated amount is 1/12 of the maximum annual contribution for the type of HDHP coverage you have times the number of months you have that type of coverage. **If your contribution is greater than the pro rated amount, and you fail to remain covered by a high-deductible health plan for the entire following year, the extra contribution above the pro rated amount is included in income and subject to an additional 10% tax.**

Special rule for married individuals:

If either you or your spouse has family HDHP coverage, then you both are treated as having only that family HDHP coverage. The IRS HSA contribution limit calculated under this special rule is a joint limit, which is divided equally between you and your spouse, if you both are HSA-eligible (unless you agree on a different division). So, if either you or your spouse is HSA-eligible and has family HDHP coverage, your and your spouse’s combined contribution limit is the annual limit for individuals with family HDHP coverage (\$5,950 for 2009). This is true even if one of you has family HDHP coverage and the other has self-only HDHP coverage, or if each

of you has family HDHP coverage that does not cover the other. Of course, family non-HDHP coverage (such as an EPO, a low-deductible group health plan, a traditional health FSA or access to funds in an HRA) on the part of *either* you or your spouse that covers both of you makes both of you ineligible to contribute to an HSA.

Only one person can be named as the account holder of an HSA. If both you and your spouse have qualified HDHP coverage and would like to make contributions to an HSA, you must each have your own HSA. If you and/or your spouse are eligible to make catch-up contributions, you may each contribute your catch-up contribution to your individual HSA.

Rollover from another HSA:

You may have more than one HSA and may contribute to any or all of them as you choose. You can roll over funds from another HSA into the HSA provided through your Duke Energy employment, and the amount of the rollover will not count toward your applicable annual contribution limit. Refer to the www.hsamember.com Web site for additional information on rollovers.

PLEASE NOTE: The IRS annual contribution limits apply to total contributions made to any and all HSAs for which you are the account holder, not just the HSA to which you make pre-tax contributions via payroll deductions as a Duke Energy employee. It is your responsibility to be mindful of the IRS limit applicable to you as you are making contributions. If you exceed the IRS limit, you may find you owe additional taxes and penalties.

If contributions to your HSA exceed the annual IRS maximum:

Mellon does not track whether you have individual or family HDHP coverage and does not limit your HSA contributions accordingly. For 2009, Mellon will accept contributions up to \$6,950 (the maximum family contribution for the year, plus the maximum catch-up contribution). It is **YOUR** responsibility to make sure your contributions to your HSA do not exceed your own applicable IRS maximum limit for the year. If they do, you may withdraw those excess contributions and any associated earnings from your account by your federal income tax filing deadline (April 15 for most employees). You will have to pay ordinary income taxes on the excess contributions and any associated earnings you withdraw but no penalty tax. If you fail to withdraw any excess contributions by your federal income tax filing deadline, they and their associated earnings are subject to ordinary income taxes plus a 6 percent excise tax. Contact Mellon directly at 877-484-5029 if you have a question about the amount you have contributed for the year.

Growing your HSA – Earnings

Interest:

The amount in your FDIC-insured HSA checking account earns interest at an annual rate of 0.500 percent¹. Interest accrues daily and is posted to your account on the last business day of every month. Your HSA checking account will continue to accrue interest as long as any funds remain in your HSA checking account, even if you no longer contribute to your HSA, participate

¹ 0.500 percent Annual Percentage Yield (APY); interest rates are subject to change periodically.

in the HDHP option, or have terminated employment with Duke Energy. Your HSA can grow with interest tax-free, year after year, without limit.

Investing your account balance:

When your HSA checking account balance reaches \$2,000, you may invest all or a portion of the balance in excess of \$2,000 in any of the 20 mutual funds listed below. The investment choices available to you are from well-known fund families. Your choices include multiple equity, balanced, and fixed income options. The initial minimum investment in each fund is \$1. Whatever portion of your HSA account balance you choose to invest in mutual funds will be transferred from your HSA checking account to your HSA investment account.

Fact sheets, prospectuses and historical performance information for all funds are available online at www.hsamember.com .

<i>Fund Category</i>	<i>Investment Fund</i>	<i>Ticker</i>
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 CL 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 Gwth Allocation Class A	MAAGX
Foreign Large Growth	Marsico Internat’l Opportunities	MIOFX
Foreign Large Blend	MFS Research Intl 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

For more information about investing your account balance, you may log on to www.hsamember.com after you have established your HSA.

Vesting

If you leave Duke Energy, you take your HSA with you. You may continue to make tax-favored contributions to your HSA as long as you meet IRS requirements, including participating in a high-deductible health plan, until you become enrolled in Medicare. You may continue to make tax-favored withdrawals from your HSA for eligible health care expenses at any time, even if you are no longer eligible to make contributions.

You are always 100 percent vested in your entire HSA account balance, including Company contributions, your contributions, other contributions made on your behalf, interest and any investment earnings. Your HSA account balance is yours to spend as you see fit, just as if it were a personal checking account. In the event of your death, your remaining account balance is transferred to your spouse, other designated beneficiary or estate. If your HSA is transferred to your surviving spouse, then your spouse becomes the account holder of the HSA and the transfer is not taxable. If your HSA is transferred to a designated beneficiary other than your surviving spouse, then the HSA ceases to be an HSA and an amount equal to the fair market value of the account assets as of the date of your death is includible in the beneficiary's gross income (or, if the beneficiary is your estate, includible in your gross income for the year in which your death occurred). A non-spouse beneficiary (other than your estate) may reduce the includible amount by the amount of any payments made from the HSA for eligible health care expenses incurred by you before death, but only if the payments are made within one year after your death. The beneficiary may also be entitled to a deduction for estate tax attributable to the amount included in income.

Establishing your HSA:

When you elect to participate in the HDHP option, you may elect to establish and contribute to an HSA.

Here's how:

On the *Your Benefits Resources*[™] (YBR) Web site, you will specify the pre-tax dollar amount that you wish to contribute to your HSA for the year.

When you reach the Confirmation page on the YBR Web site, during the annual benefits enrollment process you will see **"You chose to contribute to the Health Savings Account; activate it here."** When you click on "activate it here," you will be taken to a Mellon Web site where you can activate your HSA.

Alternatively, if you establish an HSA outside of annual benefits enrollment, you will receive information about activating your account from Mellon by mail. This information outlines an electronic method as well as an alternative paper-based method.

Please Note:

- You should activate your HSA as quickly as possible. This allows you and Duke Energy to contribute to your account and will authorize Mellon to issue you a debit card and debit card PIN so you can begin using your account.
- Activating your HSA online with Mellon during the annual benefits enrollment process is the fastest way to ensure that your account is ready to receive contributions in time for your first payroll deduction.
- If you do not activate your HSA by accessing the Mellon Web site, you must complete a paper process to activate your account.
- If your HSA is not activated within 60 days, your pre-tax payroll deductions will be returned to you less applicable taxes, and you will not receive any Duke Energy contributions (except for any applicable Live Well incentive amount, which Duke Energy will then contribute to an HCSA for you).

- If Duke Energy contributed a Live Well incentive amount to an HCSA for you because you did not establish your HSA during annual benefits enrollment, you are not eligible to establish an HSA at any point during the plan year, even though you are enrolled in the HDHP option, because you cannot contribute to an HSA and have access to funds in an HCSA at the same time.

After you activate your HSA, you will be mailed an HSA welcome kit along with a signature card and beneficiary designation form to return to Mellon. The signature card must be returned to receive a checkbook from Mellon and for you to be able to write checks from your HSA.

Once you return the signature card, Mellon will issue you an HSA checkbook.

Using your HSA: Making withdrawals

After you activate your HSA, Mellon will send you a debit card that you may use to make withdrawals from your checking account anytime you have funds available. After you complete and return a signature card, you will also have a checkbook that you may use to access funds in your account.

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 doctors' offices. Be sure that your checking account has a sufficient balance to cover your transaction, or you may be subject to overdraft fees (see *HSA Account fees and expenses*, page 19). If you do not have enough money in your HSA checking account to cover an expense, but have sufficient funds in your HSA investment account, you can transfer money back to your HSA checking account and then pay for the expense.

Although you do not need to submit receipts to get withdrawals from your HSA, be sure to keep them to document your eligible health care expenses. (See *Tax records and reporting*, page 17.)

You can access funds in your HSA at any time, but you are *not required* to take withdrawals from your HSA. You may choose to let the funds build a reserve in your account for current and future health care expenses as the funds accumulate tax-free, year after year. **Keep all your receipts for eligible health care expenses.** You may receive reimbursement in a future year for an expense incurred in a previous year if you have receipts to substantiate your withdrawal (in the event of an audit) and if you had already established your HSA at the time the expenses were incurred. (See *Managing your HSA* on page 17)

You must keep documentation (such as receipts) with your tax records sufficient to show that:

- The withdrawals were exclusively to pay or reimburse eligible health care expenses
- The eligible health care expenses had not been previously paid or reimbursed from another source; and
- The eligible health care expenses had not been taken as an itemized deduction on your income tax return in any year.

Eligible health care expenses:

Withdrawals from your HSA to pay for eligible health care expenses **incurred after your HSA is established** are tax-free even if the expenses are not covered by the HDHP. This includes expenses incurred by your eligible dependents even if those dependents are not covered under your medical plan or by a high-deductible health plan. Listed below are some examples of eligible health care expenses. *Please also refer to IRS publication 502 available at www.irs.gov for more detailed listings of eligible and noneligible expenses. **Note:** The list of eligible expenses includes a wide range of items and services, including some that may not be covered by your HDHP option.*

- Acupuncture
- Ambulance expenses
- Artificial teeth
- Chiropractors
- Christian Science practitioners
- Deductibles under your or your eligible dependents' health insurance coverage
- Dental treatment
- Eyeglasses
- Fertility enhancement
- Hearing aids
- LASIK eye surgery
- Long-term care insurance (up to certain limits)
- Medicare deductibles
- Mileage and certain other travel costs related to medical care
- Nursing homes
- Out-of-pocket medical expenses not paid by your current medical plan (hospitalization, lab and x-ray services, office visits and prescriptions)
- Orthodontia
- Orthopedic shoes
- Over-the-counter medicines
- Oxygen and equipment
- Podiatry
- Prescription drugs
- Prosthesis
- Smoking cessation programs
- Telephones and television for the hearing impaired
- Vitamins (if prescribed)
- Vaccines
- Weight loss programs
- Wheelchairs
- Some premiums including:
 - Medicare coverage (Part A, Part B, Part C and/or Part D premiums for you, your spouse, or dependents)
 - COBRA coverage
 - Long term care coverage (up to certain limits)
 - Health coverage if you are receiving federal or state unemployment benefits
 - PLEASE NOTE: Payments for health insurance premiums or coverage contributions toward self-funded health coverage such as that offered to employees and retirees by Duke Energy are not reimbursable from an HSA.

Examples of expenses that are not eligible health care expenses and thus payment of which does **not** qualify for tax-free withdrawals include:

- Advance payment of future medical expenses
- Athletic club membership
- Cosmetic surgery
- Electrolysis or hair removal
- Hair transplants
- Premiums for coverage to supplement Medicare
- Over-the-counter vitamins and nutritional supplements
- Special foods or beverages
- Teeth whitening
- Any expenses incurred by your domestic partner (unless recognized as your tax dependent for federal income tax purposes)

You can access the funds in your HSA via the Mellon Web site (www.hsamember.com) even after you terminate employment with Duke Energy or are no longer eligible to contribute to your HSA (such as if you are no longer enrolled in a high-deductible health plan), and you may continue to get tax-free withdrawals for eligible health care expenses until your account is depleted.

Using Your HSA: Taxation of distributions

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

Withdrawals for:

- ***Eligible health care expenses*** (see page 15) for you and your eligible dependents are ***always tax-free***
- ***Noneligible*** expenses after you reach age 65, become disabled* or die are subject to ordinary income taxes
- ***Noneligible*** expenses before you reach age 65, become disabled* or die are generally subject to ordinary income taxes *plus* a 10 percent penalty tax

Note: Because your domestic partner generally is not recognized as your tax dependent for federal income tax purposes, withdrawals for health care expenses incurred by your domestic partner generally would be considered noneligible and subject to income taxes and, unless you are age 65 or over (or become disabled* or die), a 10 percent penalty tax.

Keep in mind, tax-free withdrawals are available for *all* eligible health care expenses incurred by your eligible dependents after your HSA is established, even if those dependents are not covered under the Duke Energy-sponsored HDHP option. 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.

* Within the meaning of the tax code.

Tax records and reporting: On contributions

Your Duke Energy W-2 form will show total Company contributions to your account for the year as well as your contributions through payroll deduction. As long as these contributions were made when you were eligible to contribute to an HSA, these amounts are not taxable to you. By May 1 each year, Mellon will send you IRS Form 5498-SA showing total contributions to your account for the preceding tax year, including Company contributions, payroll deductions and any other contributions sent directly to Mellon on your behalf.

Tax records and reporting: On distributions

By January 31 following any year in which there are withdrawals from your HSA, Mellon will issue you an IRS Form 1099-SA showing the total withdrawal amount for the year. Total distribution and contribution amounts are available at any time, for both the current and prior calendar years, on the Mellon Web site (www.hsamember.com).

Managing your HSA

After you have elected to contribute to an HSA and activated your account (see also *Establishing your HSA, page 13*), you have access to the Mellon HSA Web site (www.hsamember.com) where you can learn more about your HSA. On your first visit to the Mellon HSA Web site, you will need to register a user ID and password. The Mellon HSA Web site gives you secure access to your HSA account information, updated daily, and allows you to:

- Re-order statements or checks
- View mutual fund performance information
- Make investment elections
- Set alerts to be notified (via a personal email address, phone, text message, etc.) if your account balance reaches a certain level or if a transaction processes
- Generate reports of transactions
- Get answers to your questions

The Mellon HSA Web site continues to be available to you if your employment with Duke Energy comes to an end.

Blue Cross Blue Shield of North Carolina has also made it easy to track your eligible health care expenses in one place using the *My HSA Account* tools available on the BCBSNC website, www.bcbsnc.com/members/duke-energy click on *Member Services*. This site is populated with your Mellon HSA account balance information on a daily basis so your medical claims, HSA balance and transactions can all be viewed in one place.

This site also allows you to conveniently link your HSA withdrawals to medical claims. By using this feature every time you make a withdrawal from your HSA, you can conveniently tie withdrawals from your HSA to a specific medical claim or expense to assist with record keeping and tax reporting. You can also add information about other eligible health care expenses paid from your HSA such as dental, pharmacy, and over the counter expenses to again enable you to conveniently link them to an HSA withdrawal. You can generate reports of your withdrawals and the associated expenses quickly and easily. **If you do not use this feature, you will need to manually keep records of your expenditures.**

Online tools and calculators:

You'll find convenient online access using the *My HSA Account* tools to:

- View a summary of your Medical Plan benefits and covered dependents
- View your medical claims and expenses
- View your HSA account balance and transactions
- Link your HSA transactions to your health claims to assist with tax reporting
- Generate HSA contribution and withdrawal tracking reports
- Access various planning tools, tips and resources

Medco manages the pharmacy portion of Duke Energy's HDHP Medical Plan option. To learn more about the cost of a medication and the most cost effective means to purchase your medications, log on to www.medcohealth.com, then select *Price a Medication*. This will provide information about what your estimated cost for a particular medication would be at retail vs. mail order as well as any additional information related to the particular medication that may apply. Be sure to also check the *My Rx Choices* tool to determine if there may be a lower-cost option for the medication that you may wish to discuss with your doctor.

As noted above, an amount withdrawn from your HSA related to a pharmacy expense will appear when you log on to www.hsamember.com and review your account balance. Again, if you wish to capture detail about a non-BCBSNC withdrawal in one place, you can add this information on the BCBSNC Web site as described above.

Phone assistance:

You may access your HSA information 24 hours a day through interactive voice systems. You may also speak directly with a representative Monday through Friday (except national holidays), during applicable business hours at:

877-484-5029 (Mellon) 8am – 8pm EST – for questions about your HSA account eligibility, contributions, withdrawals, balance inquiries, investments options, taxation, rollovers, transfers, etc.

888-554-3202 (BCBSNC) 8am – 9pm EST – for questions about the HDHP option and your medical claims

800-987-8361 (Medco) 24 hours a day – for questions about your pharmacy claims under the HDHP option

888-465-1300 (myHR Service Center) 8am – 8pm EST – for questions related to eligibility, your elections, or changing your HSA pre-tax contribution amount

Assistance by mail:

You will receive monthly statements by mail from Mellon summarizing your HSA account activity, including:

- Contributions
- Withdrawals
- Fees, as applicable
- Interest/investment earnings

You will also receive the annual statements described above for tax filing purposes.

Document your withdrawals:

Although you are not required to submit documentation at the time you make an HSA withdrawal (an advantage over health care spending accounts), it is essential that you keep all receipts and other documentation of withdrawals from your HSA. **You** – not Duke Energy, BCBSNC or Mellon – are responsible for proving that tax-free withdrawals from your account were made for eligible health care expenses. If you are audited by the IRS, you will need to substantiate every withdrawal to confirm that it received the correct tax treatment.

HSA account fees and expenses:

Mellon automatically deducts certain fees from your account. All deductions will appear on your online account records and your monthly account statement.

Set up fee:

All account set up fees are waived for Duke Energy accounts. You may see a \$15 fee referenced on the Mellon Web site. Please be aware that it is not applicable.

Monthly checking account 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.

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 of \$25. *If your balance is insufficient to cover an HSA debit card transaction, the entire transaction will be declined.*

Investment account fees:

When you elect to invest some or all of the portion of your HSA balance in excess of \$2,000 among the available investment options, the following types of fees will apply to amounts held in your investment account:

Account maintenance fee	\$2.90 / month
Asset management fees	\$0
Loads	\$0
Transaction fees	\$0
Redemption fees	\$0

All fees are subject to change.

MAKING THE DECISION:

This booklet is designed to give you details on how the HDHP option and HSA work. Here are some suggestions on steps to take as you consider what options 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 types of claims did you file this year? How about next year; do you expect any changes in medical coverage needs?

2. **Review your Medical 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 maximums? What are the annual employee contributions?

If you elect the HDHP option and establish an HSA, then later determine that the HDHP option is not the best option to meet your needs, you may change your Medical Plan option election during a future annual enrollment or upon a qualifying mid-year status change (such as birth, marriage, or divorce). Recall that to contribute to an HSA you must be enrolled in a high-deductible health plan; however, you may continue to access the funds in your HSA even if you are no longer eligible to contribute. (See *Using your HSA – Making withdrawals* on page 14.)

3. **Consider how the HDHP option with an HSA fits into the mix:** Pay special attention to the lower employee contribution cost, the Company contributions you would receive to your HSA, and the opportunity this option gives you to save and invest tax-free dollars to help cover current and future out-of-pocket health care expenses, including health care costs in retirement.

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, your employee contributions for coverage and any HSA contributions, including Company contributions. And remember – money in your HSA is yours to keep and can grow tax-free year over year. The Medical Expense Estimator tool on the Your Benefits Resources (YBR) Web site during your enrollment period enables you to compare your estimated total out-of-pocket costs under each of Duke Energy's Medical Plan options.

5. **Try these online resources for more help in making a decision:**

www.hsamember.com or www.bcbsnc.com/members/duke-energy/ (Click on *HDHP-HSA*) to learn more. On these Web sites, you can read about the tools available to help you learn about HSAs, their tax advantages, how they work, and more.

6. **Other online resources/Web sites:**

www.ustreas.gov/offices/public-affairs/hsa/ with information on:

- All Treasury Department guidance
- Frequently asked questions
- IRS forms and publications
- HSA status
- Examples of tax savings from HSA contributions
- And more...

<http://www.ustreas.gov/offices/public-affairs/hsa/pdf/HSA-Tri-fold-english-07.pdf>

A short two-page summary of HSAs (Note: This is the 2008 version of this posting)

<http://www.hsainsider.com/learn/basics.aspx>

http://www.ustreas.gov/offices/public-affairs/hsa/pdf/all-about-HSAs_072208.pdf

Health Savings Accounts vs. Health Care Spending Accounts:

You may have previously participated in the Health Care Spending Account (HCSA), to accumulate tax-free dollars to help cover out-of-pocket eligible health care expenses. Due to the tax advantages offered by both HSAs and HCSAs, the IRS does not permit you to contribute to both. Here is a brief comparison of the key differences.

	<i>Health Savings Account (HSA)</i>	<i>Health Care Spending Account (HCSA)</i>
Medical plan	You must enroll in the Duke Energy-sponsored HDHP option to contribute to a HSA on a pre-tax basis via payroll deductions.	You don't need to be enrolled in a specific (or any) Duke Energy Medical Plan option to contribute to a HCSA.
Your year-end balance	You don't have to use your entire HSA balance each year. Whatever you don't use continues to accrue interest or investment earnings and rollover year after year.	You must spend the entire balance of your HCSA each year or you forfeit whatever remains at the end of the year.
If you leave Duke Energy	You can take your HSA with you if you change employers. Any balance remaining upon your death will be transferred to your spouse, other designated beneficiary or estate.	You can't take your HCSA with you if you change employers, but you may be able to start a new account at the new employer. You may also be able to elect COBRA continuation coverage for your Duke Energy HCSA for the remainder of the plan year in which you leave Duke Energy.
Mid-year changes	You can make mid-year changes to your contribution election at any time.	You can't make mid-year changes to your contribution election, except in limited circumstances (for example, a change in family status).
Expense documentation	You don't need to submit receipts to take a withdrawal from your account. NOTE: If requested, you must submit receipts to the Internal Revenue Service (IRS).	For most situations, you must provide receipts to request reimbursement for your eligible health care expenses.

Auto-reimbursement	No auto-reimbursement option. You decide when you incur an eligible health care expense if you prefer to use funds available in your HSA or if you prefer to save those funds for later and pay from your pocket.	Auto-reimbursement feature is an option where your claims can automatically be reimbursed to you once UMR has been notified by the carrier feeds that a claim has occurred.
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Additionally:

	<i>If you elect the HDHP option and make pre-tax contributions an HSA</i>	<i>If you contribute to an HCSA</i>
Duke Energy seed money and matching contributions	Duke Energy will contribute seed money and matching contributions to your HSA up to a maximum of \$1,000* for Individual HDHP option coverage or up to \$2,000* for Individual + Spouse/DP, Individual + Child(ren) or Individual + Family HDHP option coverage. You can contribute up to the applicable IRS maximum of \$3,000 or \$5,950 for 2009. An additional \$1,000 may be contributed by those who are age 55 and over during 2009. *Seed money and matching contributions combined	Duke Energy does not contribute to your HCSA (unless you have earned a Live Well reward - see below). You can contribute up to \$5,000 on a pre-tax basis for 2009.
Duke Energy Live Well contributions	Those who earned a Live Well reward of up to \$200 for the 2007-2008 cycle that ended June 30, 2008 will have their incentive applied to the HSA.	Those who earned a Live Well reward of up to \$200 for the 2007-2008 cycle that ended June 30, 2008 will have their incentive applied to the HCSA.
Interest and investment earnings	Interest is credited to your HSA checking account monthly. You may also choose to invest a portion of your balance in mutual fund options, once you establish a minimum checking account balance.	Your account does not earn interest and does not offer investment options.
Annual enrollment	Once established, there is no need to re-enroll. However, you will have to participate in the HDHP option under Duke Energy's Medical Plan to make pre-tax payroll contributions to the HSA via Duke Energy.	You must re-enroll each year to participate in the HCSA.