



ANNUAL NOTICE CONCERNING FEDERAL LAWS AND ACTS AND POLICIES OF YOUR EMPLOYER-SPONSORED HEALTH & DENTAL PLAN

FOR CALENDAR YEAR 2008

*USA Health & Dental Plan, Human Resources ,
USA Technology and Research Park, Building III, Suite 2200, Mobile, AL 36688*

WHAT YOU SHOULD KNOW

The University of South Alabama is pleased to provide its Eligible Employees and their Dependents with a quality health plan providing some of the best benefits at the lowest cost to employees in our area.

This newsletter provides important information about federal laws and acts that affect your coverage. It also includes information about the policies and procedures of your Plan. You should read this notice carefully and keep it with your important papers. This notice, along with your Member Handbook, will assist you in understanding your rights under the Plan and your responsibilities to the Plan.

When used in this newsletter, the term "Plan" refers to the USA Health & Dental Plan. The term "Member" refers to Eligible Employees and their Dependents, unless otherwise noted. The term "Employer" refers to the University of South Alabama, the USA Medical Center or the USA Children's and Women's Hospital.

NOTICE OF THE PLAN'S OPT-OUT OF SOME FEDERAL REGULATIONS

The federal government regulates enforcement of three health care laws: the Health Insurance Portability & Accountability Act (HIPAA), the Newborns' and Mothers' Health Protection Act (NMHPA), and the Mental Health Parity Act (MHPA). The law allows non-federal governmental health plans the right to be exempt from these regulations. Following review of these Acts, it was determined it is in the best interest of the majority of Members not to participate in HIPAA, NMHPA, and MHPA. An explanation of the impact of this decision on current and future Members is provided in this newsletter.

Health Insurance Portability and Accountability Act (HIPAA):

Many of the provisions of HIPAA do not apply to the Plan, or the Plan is already in compliance with these provisions. For example, HIPAA requires a special enrollment period for employees who incur a Change-In-Status Event concerning eligibility of family members. This benefit has always been offered under the Plan. HIPAA prohibits group health plans from discriminating against employees on the basis of health status. The Plan has never imposed discriminatory rules.

Current Employees who have already served the 270-day Pre-Existing Conditions Exclusion waiting period, as explained in your Member Handbook will not be affected by the University's decision to opt-out of HIPAA.

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New Employees and New Dependents are required to serve the 270-day Pre-Existing Conditions Exclusion waiting period, as explained in your USA Health & Dental Plan Handbook. Certificates of prior coverage from your previous insurance plan will not reduce the Pre-Existing Conditions waiting period you are required to serve under this Plan.

HUMAN RESOURCES

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Pre-Existing Conditions include pregnancy or any disease, disorder or ailment, congenital or otherwise, which existed on or before the Effective Date of coverage, whether or not it was manifested or known in any way, or any condition diagnosed or treated in the 12 months before the Effective Date of coverage. The determination of whether a medical condition is pre-existing is made by the Claims Administrator, Blue Cross and Blue Shield of Alabama.

The Pre-Existing Conditions Limitation applies to each Member, individually, to initial eligibility and to the annual Open Enrollment Period. The Pre-Existing Conditions Exclusion does not apply to newborn or adopted children.

New employees and new dependents should give serious consideration to continuing the COBRA privilege granted under a previous employer's health plan if there are any concerns that a medical condition may be considered pre-existing under the terms of this Plan.

Departing Employees or Dependents No Longer Eligible will be provided a certification of coverage from this Plan that can be submitted to possibly offset the waiting period for coverage of pre-existing conditions under a new health plan. Departing employees and dependents no longer eligible for coverage will be entitled to COBRA coverage.

Newborns' and Mothers' Health Protection Act (NMHPA):

The NMHPA establishes minimum in-patient hospital stays for newborns and mothers following delivery, based on medical necessity. The Plan has never imposed limitations regarding the length of an in-patient hospital stay following delivery. The Plan's decision to opt-out of NMHPA will have no effect on current or new employees.

Mental Health Parity Act (MHPA):

The Mental Health Parity Act does not allow plans to establish financial limits on mental health treatment, but does allow Plans to establish limits on the number of out-patient office visits, number of in-patient days allowed, coverage of prescription drugs to treat mental health conditions, or elimination of mental health treatment altogether.

The Plan provides treatment for mental health and nervous conditions as well as substance abuse. The alternatives provided by MHPA may be more restrictive on coverage of mental health conditions than the limits currently established under the Plan. The Plan's decision to opt-out of MHPA will result in no change in the handling of claims for Mental Health and Substance Abuse treatment.

WOMEN'S HEALTH AND CANCER RIGHTS ACT

The Plan complies with the Women's Health and Cancer Rights Act, providing the following benefit:

The Health Plan provides medical benefits for mastectomies for treatment of breast cancer including reconstructive surgery of the breast on which the mastectomy was performed, and of the other breast to produce a symmetrical appearance; prosthesis and coverage of physical complications resulting from all stages of the mastectomy, including lymphedema. Coverage of prosthesis includes initial placement of prosthesis and replacements as determined to be Medically Necessary. Coverage of prosthesis also includes the brassiere required to hold the prosthesis, limited to a Plan Year Maximum Benefit of four (4) brassieres.

NOTICE OF A SPECIAL ENROLLMENT PERIOD FOR A CHANGE-IN-STATUS EVENT

If you or any of your family members declined coverage in the Plan when first eligible for coverage (or during the annual Open Enrollment Period), you may enroll in the Plan or enroll your Eligible Dependents when certain events cause a Change-In-Status Event. Some Change-In-Status Events result in termination of coverage for a dependent. To make an enrollment change due to a Change-In-Status Event, you must make application to the Human Resources Department within 30 days of the event. Change-In-Status Events include:

1. A change in your marital status (marriage, divorce, legal separation or death of your spouse).
2. A change in the number of your dependents (birth or adoption of a child, death of a child, or obtaining legal custody of a child who permanently resides in your home and is not a foster child, or obtaining legal guardianship of a child because the child's parents are dead or have had their parental rights terminated by court action).

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3. A change in your employment status (starting/ending employment, changing from part-time to full-time or vice versa, taking or returning from an approved leave) during which you or your spouse's coverage terminates. A change in your spouse's employment status (starting/ending employment, changing from part-time to full-time or vice versa, a strike or lockout, or your spouse taking or returning from an unpaid leave or leave under the Family and Medical Leave Act or USERRA).
4. Exhaustion of your coverage period under a previous employer's COBRA continuation.
5. A significant change in the costs of or coverage provided by your spouse's employer-sponsored health plan, or a significant change in the costs of or coverage provided by this Plan.
6. A change in the eligibility status of a dependent child (marriage of the child, child reaching the maximum age for coverage under the Plan, child meeting or no longer meeting the definition of a Full-Time Student or child becoming employed on a regular, full-time basis).
7. An end to the Disability of a Disabled child enrolled as your dependent under the Plan.
8. A change in your residence or work site, or that of a spouse or dependent, which affects ability to access benefits under this or another employer-sponsored health plan.
9. A required change due to a court order.
10. You or your dependents entitlement to Medicare or Medicaid.

For Employees and/or Eligible Dependents enrolling during the Special Enrollment Period, the Pre-Existing Conditions Exclusion waiting period will be waived in whole or in part by receiving credit for the period of time the Employee has been employed in a benefits-eligible position.

NOTICE OF YOUR RIGHT TO COBRA CONTINUATION OF COVERAGE UNDER THE PLAN

This notice contains important information about your right to COBRA continuation coverage, which is a temporary extension of coverage under the Plan. **This notice generally explains COBRA continuation coverage, when it may become available to you and your family, and what you need to do to protect the right to receive it.**

The right to COBRA continuation coverage was created by a federal law, the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). COBRA continuation coverage can become available to you when you would otherwise lose your group health coverage. It can also become available to other members of your family who are covered under the Plan when they would otherwise lose their group health coverage. For additional information about your rights and obligations under the Plan and under federal law, you should review the Health & Dental Plan Member Handbook or contact the Human Resources Department.

What is COBRA Continuation Coverage?

COBRA continuation coverage is a continuation of Plan coverage when coverage would otherwise end because of a life event known as a "qualifying event." Specific qualifying events are listed in this notice. After a qualifying event, COBRA continuation coverage must be offered to each person who is a "qualified beneficiary." You, your spouse, and your dependent children could become qualified beneficiaries if coverage under the Plan is lost because of the qualifying event. Under the Plan, qualified beneficiaries who elect COBRA continuation coverage must pay for COBRA continuation coverage.

If you are an employee, you will become a qualified beneficiary if you lose your coverage under the Plan because either one of the following qualifying events happens: (1) your hours of employment are reduced, or (2) your employment ends for any reason other than your gross misconduct.

If you are the spouse of an employee, you will become a qualified beneficiary if you lose your coverage under the Plan because any of the following qualifying events happens: (1) your spouse dies; (2) your spouse's hours of employment are reduced; (3) your spouse's employment ends for any reason other than his or her gross misconduct; (4) your spouse becomes entitled to Medicare benefits (under Part A, Part B, or both); or (5) you become divorced.

Your dependent children will become qualified beneficiaries if they lose coverage under the Plan because any of the following qualifying events happens: (1) the parent-employee dies; (2) the parent-employee's hours of employment are reduced; (3) the

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parent-employee's employment ends for any reason other than his or her gross misconduct; (4) the parent-employee becomes entitled to Medicare benefits (Part A, Part B, or both); (5) the parents become divorced; or (6) The child stops being eligible for coverage under the Plan as an Eligible Dependent.

When is COBRA Coverage Available? The Plan will offer COBRA continuation coverage to qualified beneficiaries only after the Human Resources Department has been notified that a qualifying event has occurred. When the qualifying event is the end of employment or reduction of hours of employment or death of the employee, the Employer will notify the Human Resources Department of the qualifying event.

You Must Give Notice of Some Qualifying Events. For the other qualifying events (divorce of the employee and spouse, a child's losing eligibility for coverage as an Eligible Dependent or the employee's becoming entitled to Medicare benefits under Part A, Part B, or both), you must notify the Human Resources Department within 60 days after the qualifying event. Any notices you give must be in writing. Verbal notice, including notice by telephone, is not acceptable.

How is COBRA Coverage Provided? Once the Human Resources Department receives notice that a qualifying event has occurred, COBRA coverage will be offered to each of the qualified beneficiaries. Each qualified beneficiary will have an independent right to elect COBRA continuation coverage. Covered employees may elect COBRA continuation coverage on behalf of their spouses, and parents may elect COBRA continuation coverage on behalf of their children.

To protect your family's rights, you must inform the Human Resources Department of any COBRA qualifying events, and you should notify the HR Department of any changes in the addresses of family members. You should also keep a copy, for your records, of any notices you send to the Human Resources Department.

COBRA continuation coverage is a temporary continuation of coverage. When the qualifying event is the death of the employee, the employee's becoming entitled to Medicare benefits (under Part A,

Part B, or both), your divorce, or a child's losing eligibility as an Eligible Dependent, COBRA continuation coverage lasts for up to a total of 36 months. When the qualifying event is the end of employment or reduction of the employee's hours of employment, and the employee became entitled to Medicare benefits less than 18 months before the qualifying event, COBRA continuation coverage for qualified beneficiaries other than the employee lasts until 36 months after the date of Medicare entitlement. For example, if a covered employee becomes entitled to Medicare 8 months before the date on which his employment terminates, COBRA continuation coverage for his spouse and children can last up to 36 months after the date of Medicare entitlement, which is equal to 28 months after the date of the qualifying event (36 months minus 8 months). Otherwise, when the qualifying event is the end of employment or reduction of the employee's hours of employment, COBRA continuation coverage generally lasts for only up to a total of 18 months. There are two ways in which this 18-month period of COBRA continuation coverage can be extended.

Disability extension of 18-month period of continuation coverage – If you or anyone in your family covered under the Plan is determined by the Social Security Administration to be disabled and you notify the Human Resources Department in a timely fashion, you and your entire family may be entitled to receive up to an additional 11 months of COBRA continuation coverage, for a total maximum of 29 months. The disability would have to have started at some time before the 60th day of COBRA continuation coverage and must last at least until the end of the 18-month period of continuation coverage. The Human Resources Department will provide you with information on the notice procedure required to obtain the disability extension.

Second qualifying event extension of 18-month period of continuation coverage – If your family experiences another qualifying event while receiving 18 months of COBRA continuation coverage, the spouse and dependent children in your family can get up to 18 additional months of COBRA continuation coverage, for a maximum of 36 months, if notice of the second qualifying event is properly given to the Plan. This extension may be available to the spouse and any dependent children receiving continuation coverage if

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the employee or former employee dies, becomes entitled to Medicare benefits (under Part A, Part B, or both), or gets divorced, or if the dependent child stops being eligible under the Plan as a dependent child, but only if the event would have caused the spouse or dependent child to lose coverage under the Plan had the first qualifying event not occurred.

If You Have Questions concerning your Plan or your COBRA continuation coverage rights, contact the Human Resources Department. For more information about your rights under COBRA and other laws affecting group health plans, contact the nearest office of the U.S. Department of Labor's Employee Benefits Security Administration (EBSA) or visit the website at www.dol.gov/ebsa. Addresses and phone numbers of Regional and District EBSA Offices are available through EBSA's website.

PRIVACY NOTICE

This notice gives you information required by law about the duties and privacy practices of the Plan to protect the privacy of your medical information. The Plan receives and maintains your medical information in the course of providing benefits to you. The Plan hires business associates to help it provide these benefits to you. These business associates also receive and maintain your medical information in the course of assisting the Plan.

The Plan is required to follow the terms of this notice until it is replaced. The Plan reserves the right to change the terms of this notice at any time. If the Plan makes changes to this notice, the Plan will revise it and send a new notice to all subscribers covered by the Plan at that time. The Plan reserves the right to make the new changes apply to all your medical information maintained by the Plan before and after the effective date of the new notice.

The Plan may use and disclose your medical information for the following purposes:

Health Providers' Treatment Purposes. For example, the Plan may disclose your medical information to your doctor, at the doctor's request, for your treatment by him/her.

Payment. For example, the Plan may use or disclose your medical information to pay claims for covered health care services or to provide eligibility information to your doctor when you receive treatment.

Health Care Operations. For example, the Plan may use or disclose your medical information (1) to conduct quality assessment and improvement activities, (2) for underwriting, premium rating, or other activities relating to the creation, renewal or replacement of a contract of health insurance, (3) to authorize business associates to perform data aggregation services, (4) to engage in care coordination or case management, and (5) to manage the Plan and develop the Plan's business.

Health Services. The Plan may use your medical information to contact you to give you information about treatment alternatives or other health-related benefits and services that may be of interest to you. The Plan may disclose your medical information to its business associates to assist the Plan in these activities.

As Required By Law. For example, the Plan must allow the U.S. Department of Health and Human Services to audit Plan records. The Plan may also disclose your medical information as authorized by and to the extent necessary to comply with workers' compensation or other similar laws.

To Business Associates. The Plan may disclose your medical information to business associates the Plan hires or retains to assist the Plan. Each business associate of the Plan must agree in writing to ensure the continuing confidentiality and security of your medical information.

To Your Employer, the Plan Sponsor. The Plan may disclose to the Plan Sponsor, in summary form, claims history and other similar information. Such summary information does not disclose your name or other distinguishing characteristics. The Plan may also disclose to the Plan Sponsor the fact that you are enrolled in, or disenrolled from the Plan. The Plan may disclose your medical information to the Plan Sponsor for Plan administrative functions that the Plan Sponsor provides to the Plan if the Plan Sponsor agrees in writing to ensure the continuing confidentiality and security of your medical information. The Plan Sponsor must also agree not to use or disclose your medical information for employment-related activities or for any other benefit or benefit plans of the Plan Sponsor.

The Plan may also use and disclose your medical information as follows:

1. To comply with legal proceedings, such as a court or administrative order or subpoena.
2. To law enforcement officials for limited law enforcement purposes.

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3. To a family member, friend or other person, for the purpose of helping you with your health care or with payment for your health care, if you are in a situation such as a medical emergency and you cannot give your agreement to the Plan to do this.
4. To your personal representatives appointed by you or designated by applicable law.
5. For research purposes in limited circumstances.
6. To a coroner, medical examiner, or funeral director about a deceased person.
7. To an organ procurement organization in limited circumstances.
8. To avert a serious threat to your health or safety or the health or safety of others.
9. To a governmental agency authorized to oversee the health care system or government programs.
10. To federal officials for lawful intelligence, counter-intelligence and other national security purposes.
11. To public health authorities for public health purposes.
12. To appropriate military authorities, if you are a member of the armed forces.

The Plan will not use or disclose your medical information for any other purposes unless you give the Plan your written authorization to do so. If you give the Plan written authorization to use or disclose your medical information for a purpose that is not described in this notice, then, in most cases, you may revoke it in writing at any time. Your revocation will be effective for all your medical information the Plan maintains, unless the Plan has taken action in reliance on your authorization.

Your Rights To Privacy: You may make a written request to the Plan to do one or more of the following concerning your medical information that the Plan maintains:

1. To put additional restrictions on the Plan's use and disclosure of your medical information. The Plan does not have to agree to your request.
2. To communicate with you in confidence about your medical information by a different means or at a different location than the Plan is currently doing. The Plan does not have to agree to your request unless such confidential communications are necessary to avoid endangering you and your

request continues to allow the Plan to collect premiums or Employee Contributions and pay claims. Your request must specify the alternative means or location to communicate with you in confidence. Even though you requested that the Plan communicate with you in confidence, the Plan may give subscribers cost information.

3. To see and get copies of your medical information. In limited cases, the Plan does not have to agree to your request.
4. To correct your medical information. In some cases, the Plan does not have to agree to your request.
5. To receive a list of disclosures of your medical information that the Plan and its business associates made for certain purposes for the last 6 years (but not for disclosures before April 14, 2003).
6. To send you a paper copy of this notice if you received this notice by e-mail or on the internet.

If you want to exercise any of these rights described in this notice, contact the Human Resources Department. The Plan will give you the necessary information and forms for you to complete and return. In some cases, the Plan may charge you a nominal cost-based fee to carry out your request.

Complaints: If you believe your privacy rights have been violated by the Plan, you have the right to complain to the Plan or to the Secretary of the U.S. Department of Health and Human Services. You may file a complaint with the Human Resources Department. Your Employer will not retaliate against you if you choose to file a complaint with the Plan or with the U.S. Department of Health and Human Services.

Contact Office: Additional copies of this notice may be obtained from the Human Resources Department, which can also direct you to the Claims Administrator to obtain additional information about privacy practices.

HOW TO CONTACT THE HUMAN RESOURCES DEPARTMENT

You may contact the University of South Alabama Human Resources Department by calling one of the numbers listed below:

USA Main Campus	460-6133
USA Medical Center	471-7325
USA Children's and Women's Hospital	415-1604

PREPARING FOR RETIREMENT*RSA DECEMBER 2007***TAX INFORMATION****Are my retirement benefits from the RSA subject to federal income tax?**

Generally, your retirement benefit is subject to federal income taxation.

However, contributions to the RSA that were previously taxed and/or purchases of service credit with previously taxed funds are exempt from federal taxation over the life expectancy of the retiree.

How will the taxable amount of my retirement benefit be reported to me?

During the last week of January 2008, the RSA will mail all retirees a Form 1099-R Income Statement for use in filing a personal income tax return. The 1099-R will report the retirement benefits subject to federal income tax.

Approximately a week prior to mailing the 1099-R, the RSA will send each retiree a letter outlining the tax reporting procedures needed to file their 2007 tax return.

Are RSA retirement benefits subject to state of Alabama income tax?

If you reside in Alabama, RSA retirement benefits are not subject to state of Alabama income tax. If you reside in another state, check with that state's revenue department to determine your tax status or click on www.1040.com.

How do I increase the federal taxes withheld from my retirement check?

You can increase the federal taxes by completing a WITHHOLDING CERTIFICATE FOR PENSION OR ANNUITY PAYMENTS form. You can request this from the RSA by telephoning 334-832-4140 or 800-214-2158 toll-free, writing the RSA at P.O. Box 302150, Montgomery, Alabama 36130-2150 or downloading the form from our Web site at www.rsa.state.al.us.

You can also obtain a FORM W-4P, WITHHOLDING CERTIFICATE FOR PENSION OR ANNUITY PAYMENTS, as well as other tax forms by contacting the IRS at 800-829-3676 or downloading it from the IRS Web site, www.irs.gov.

If I do not receive a Form 1099-R from the RSA by February 11, 2008, how may I obtain one?

The RSA will provide a duplicate Form 1099-R, but not until after February 11, 2008.

The original Form 1099-R is mailed to the home address on file with the RSA. If you have moved and have not provided the RSA with your correct address, the U.S. Postal Service may not forward your Form 1099-R.

To correct your mailing address:

Send the RSA written verification of your new address and include your full name and Social Security number. Obtain an Address Change Notification form from the RSA, or download the form from our Web site.

Change your address online through Member Services on the RSA Web site.

Prepared by the Communications staff of the Retirement Systems of Alabama. To have your questions answered in "Preparing for Retirement", please address them to:

Michael Pegues, Communications
Retirement Systems of Alabama
P. O. Box 302150
Montgomery, Alabama 36130-2150
www.rsa.state.al.us



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