

Re: Hy-Vee Pre-Tax Premium Payment Program for Elective Benefits Plan

Dear Hy-Vee Employee,

Hy-Vee has made certain voluntary benefits (group long-term disability, vision, cancer, part-time health, and part-time dental insurance) available to eligible employees for several years. Through the Pre-Tax Premium Payment Program for Elective Benefits, you can elect to pay for these voluntary benefits on a pre-tax basis.

While paying for voluntary benefits on a pre-tax basis reduces your taxes, there are restrictions to changing benefits elected pre-tax, and some additional special considerations apply to purchasing long-term disability insurance with pre-tax dollars.

This letter describes 1) some key features of the Pre-Tax Premium Payment Program, 2) important election deadlines and procedures, and 3) some of the factors you should consider in determining whether to purchase these benefits with pre-tax dollars.

In order to participate in the Pre-Tax Premium Payment Program for Elective Benefits, you **must elect** to pay for your benefits on a pre-tax basis. If you enroll for coverage but do **not** elect to pay your premium pre-tax, you are electing to pay your benefits on an after-tax basis. Once you elect to pay pre-tax or after-tax, you will not be able to change that decision for the remainder of the plan year; August 1, 2007 through July 31, 2008. Your elections will remain the same from plan year to plan year unless you elect to change them.

Special rules apply for pre-tax cancer and vision insurance coverage. If you would like to enroll in cancer insurance coverage, you must pay for it on an after-tax basis for at least three full months. After your cancer insurance coverage has been in place for at least three full months, you may elect during the next annual enrollment period to begin paying for it on a pre-tax basis. Unlike with the other voluntary benefits, your pre-tax vision program election is irrevocable for two full premium years (e.g., August 1, 2007 through July 31, 2009).

In order to enroll in the Pre-Tax Premium Payment Program for the 2007 plan year, we must receive your completed Elective Benefits Pre-Tax Premium Payment Election Form in our office by **July 27, 2007**. Send the Election Form to: Hy-Vee Elective Benefits, P.O. Box 737, Chariton, IA 50049. If you are already signed up for elective benefits on an after-tax basis or sign up now for elective benefits, but do not submit a completed pre-tax election form by the deadline, you will receive benefits on an after-tax basis until the next annual enrollment.

If you are not currently enrolled in any elective benefits, you will need to visit with a Hy-Vee Elective Benefits representative in order to complete applications for benefits. Note that filling out the enclosed pre-tax election form alone does not enroll you in the underlying benefit(s). That is a separate process.

If you enroll for an elective benefit after July 27, 2007, you will be required to pay for the benefit on an after-tax basis until the next annual enrollment, unless you experience a change in status event (such as change in marital status, birth or adoption of a child or change in job status) and the requested enrollment is consistent with the change in status event. Your enrollment must also be permitted under the terms of the insurance policy for the benefit in question. At the next annual enrollment, you will have another opportunity to enroll in the Pre-Tax Premium Payment Program.

If you enroll by the deadline, your pre-tax payroll deductions begin with first scheduled payday in **August**.

The following Elective Benefits may be paid with pre-tax dollars:

- Group Long-Term Disability Insurance (Full-time/regular employees)
- Vision Coverage (Full-time/regular and part-time employees)
- Cancer Insurance (Full-time/regular and part-time employees), as long as cancer insurance coverage has been in place for at least three full months.
- Part-Time Health Insurance (Part-time employees)
- Part-Time Dental Insurance (Part-time employees)

Things to Consider

In determining whether to pay for your benefits on a pre-tax basis, you should consider the following:

- **TAX SAVINGS.** You will save money by paying for Elective Benefits on a pre-tax basis. In general, you will not pay Federal Income Tax (approximately 10% to 35%), State Income Tax (approximately 3% to 10%) or Social Security and Medicare Part A (FICA) Taxes (approximately 7.65%) on the amount of your pre-tax premiums payment contributions.

For example, suppose the Elective Benefits you participate in (cancer, group long-term disability, vision or part-time health or dental insurance) cost \$95 a month. Also suppose you earn \$2,500 per month and that you are in the 28% federal tax bracket, 7% state tax bracket and you pay FICA taxes of 7.65%. Paying for your eligible Elective Benefits on an after-tax basis leaves you with \$1,339 per month. Paying these premiums on a pre-tax basis leaves you with \$1,379 per month, saving you \$40 each month. Over a year, that's a savings of \$480.

The tax savings will vary from taxpayer to taxpayer based upon personal circumstances, exemptions, deductions and filing status.

- **PRE-TAX ELECTIONS ARE GENERALLY IRREVOCABLE.** If you elect to pay for your Elective Benefits on a pre-tax basis, federal law limits your ability to change your benefit elections during the year. (Note, however, that the vision coverage requires a two-year election, whether purchased with pre-tax or after-tax dollars.) You will only be able to change your pre-tax benefit elections during the year if you experience a change in status event and the change you desire to make is consistent with the change in status event. Change in status events include, among other events, marriage, birth, adoption, and termination or commencement of employment for you or your spouse. A more detailed list of the change in status events will be available in the summary plan description you receive. For example, if you elect group long-term disability insurance after-tax, you can drop the coverage at any time during the plan year. If you elect it on a pre-tax basis, however, you cannot change your election until the next plan year unless you experience a change (like moving to a benefit-ineligible position) that permits you to cancel coverage.
- **TAXABILITY OF LONG-TERM DISABILITY BENEFITS.** If you pay for your long-term disability coverage on a pre-tax basis, the benefits you receive as a result of a disability **will be taxable income, and are reported to you on your Form W-2 and may, in some circumstances, be subject to Social Security tax.** If you pay for your long-term disability coverage on an after-tax basis, any benefits you receive as a result of a disability will be non-taxable.
- **SOCIAL SECURITY.** Because your premium payments are deducted before your Social Security taxes are calculated, your Social Security benefit may be affected.

The Hy-Vee Elective Benefits Summary Plan Description is now available for you to download or print from our web site at www.hveb.com. This booklet provides an explanation of the general eligibility and enrollment rules under the Plan as well as details regarding important rights you have as a participant in the Plan. If you do not have internet access, contact our office at 1-800-622-0057 and we can mail one to you.

Sincerely yours,

Hy-Vee Elective Benefits

Elective Benefits Pre-Tax Premium Payment
Election Form

Employer Name: Hy-Vee, Inc.

Employee Name: _____

Employee Address: _____

Employee Home Phone Number: (_____) _____ - _____

Employee Social Security Number: _____ - _____ - _____

Employee Hy-Vee ID Number: _____

Employee Store Location: _____

Plan Year August 1, 2007 through July 31, 2008

Election for Pre-Tax Payment of Benefits Premiums

On the appropriate, and separate, benefit enrollment form(s), I have enrolled for certain insurance coverage(s).

I elect to pay for the entire premium, as adjusted from time to time, for the following benefits on a **pre-tax** basis through salary deductions:

____ Group long-term disability insurance (Full-time/regular employees)

____ Vision coverage (Full-time/regular and part-time employees)

____ Cancer insurance - American Heritage Life (Allstate Workplace Division) (Full-time/regular and part-time employees). I understand that I can only elect to pay for cancer insurance coverage on a pre-tax basis if I have had this coverage in place for at least three full months.

____ Cancer insurance - EMC National Life (Full-time/regular and part-time employees). I understand that I can only elect to pay for cancer insurance coverage on a pre-tax basis if I have had this coverage in place for at least three full months.

____ Part-time health insurance (Part-time employees) (Including critical illness if selected but does not include short-term disability premium)

____ Part-time dental insurance (Part-time employees)

Terms and Conditions

I understand that:

- I am authorizing pre-tax deductions from my salary for the total amount of premiums charged for the Elective Benefits indicated above.
- I understand that any Elective Benefits that I am enrolled in and that are not selected above will be paid by me on an after-tax basis through salary deductions.
- I understand that if the total premiums for the Elective Benefits indicated above are increased or decreased, my pre-tax salary deductions will automatically be adjusted to reflect that increase or decrease.
- **My election is irrevocable. I will not be permitted to change or revoke my pre-tax elections or the Elective Benefits I receive on a pre-tax basis until the next annual enrollment, unless I experience a change in status event (as described below). For vision benefits, I understand that my election is for two full premium years and that I will not be permitted to change my election until the second annual enrollment after my enrollment, unless I experience a change in status event.** Change in status events include, but are not limited to, marriage, divorce, death of a spouse or child, birth or adoption of a child, termination or commencement of employment of my spouse, change in my or

my spouse's employment status that results in a change in eligibility for benefits, my spouse or I taking an unpaid leave of absence, substantial change in my family's health coverage due to a change in my spouse's employer-sponsored health coverage).

- The Plan Administrator may redirect or cancel my Pre-Tax Premium Payment Agreement or otherwise modify this Agreement if it is necessary in order to comply with certain provisions of the Internal Revenue Code.
- The pre-tax elections under this Agreement shall be in addition to any reductions under other agreements or benefit programs maintained by my Employer.
- During the annual enrollment period, I will have the opportunity to change my benefit elections for the following plan year (except with respect to vision benefits where I can change my election only after two full premium years). If I do not complete and return a new election form by the deadline prescribed by the Plan Administrator, I will be treated as having elected to continue my Elective Benefits and my pre-tax elections then in effect for the new plan year. This Agreement will continue by its terms.
- If I pay for my long-term disability coverage on a pre-tax basis, the benefits I receive as a result of a disability will be taxable income, and reported to me on a Form W-2 and may, in some circumstances, be subject to Social Security tax.
- Paying for coverage on a pre-tax basis may affect the amount of my future social security benefits.
- This election form does not nullify a prior pre-tax election, except to the extent this election form specifically revokes a prior election.

THIS AGREEMENT IS SUBJECT TO THE TERMS OF THE HY-VEE PRE-TAX PREMIUM PAYMENT PROGRAM, A COMPONENT OF THE HY-VEE ELECTIVE BENEFITS PLAN, AS AMENDED FROM TIME TO TIME. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH APPLICABLE LAWS AND SHALL TAKE EFFECT AS A SEALED INSTRUMENT UNDER APPLICABLE LAWS.

X _____
Employee's signature

Date _____

Revocation of Prior Pre-Tax Election

I hereby revoke my previous pre-tax election as it relates to the following benefits. My prior election for any benefits that are not checked will continue.

____ Group long-term disability insurance (Full-time/regular employees)

____ Vision coverage (Full-time/regular and part-time employees)

____ Cancer insurance - American Heritage Life (Allstate Workplace Division) (Full-time/regular and part-time employees)

____ Cancer insurance - EMC National Life (Full-time/regular and part-time employees)

____ Part-time health insurance (Part-time employees) (Including critical illness if selected but does not include short-term disability premium)

____ Part-time dental insurance (Part-time employees)

X _____
Employee's signature

Date _____