



Note: This supplement must be completed by a parent or legal guardian of the child who is the account recipient.

# 1 Information about the account recipient

\_\_\_\_\_ MI \_\_\_\_\_ Last \_\_\_\_\_
 
   -   -

SSN of account recipient (provide the last four digits)

# 2 Account beneficiary

The account beneficiary will become the account recipient in the event the original recipient dies before the age of 30. If no person or entity, including a trust or estate, is listed, the recipient's estate will be the beneficiary.

\_\_\_\_\_ MI \_\_\_\_\_ Last \_\_\_\_\_
 
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  -   -    

 \_\_\_\_\_

SSN of account beneficiary      Date of birth of account beneficiary (mm/dd/yyyy)      Country of citizenship

# 3 Investment instructions

For a quick guide to fund names, numbers, minimums and share class restrictions, go to [www.capitalgroup.com/fundguide](http://www.capitalgroup.com/fundguide). Contributions must be made by the tax-filing deadline without considering extensions.

### A. Select a contribution type:

- Regular contribution
- Rollover contribution\* (This option requires a check.)
- Transfer of Assets (Refer to *Coverdell ESA Request for Transfer of Assets*.)

**Tax reporting:** Contributions made from January 1 through April 15 of the current tax year may be designated for the current or prior tax year. Contributions made from April 16 through December 31 must reflect the current year. Please designate your choice below.

Please apply my contribution as follows: \$ \_\_\_\_\_ Tax year \_\_\_\_\_ \$ \_\_\_\_\_ Tax year \_\_\_\_\_

\*You may roll over a distribution from an ESA established for the same child/recipient or, under certain circumstances, for a family member. Consult your tax advisor for more details.

### B. Provide investment instructions.

Invest my contribution(s)/rollover as instructed below.

Fund name or number	Amount	Percentage (whole percentages only)
_____	\$ _____	OR _____%
_____	\$ _____	OR _____%
_____	\$ _____	OR _____%
_____	\$ _____	OR _____%
<b>Total contribution</b>	<b>\$ _____</b>	<b>OR _____%</b>

Note: The \$10 setup fee will be deducted from each new account.



**Please retain for your records.**

(Under §530 of the Internal Revenue Code)

**Section 1 — Definitions**

As used in this Custodial Agreement (“Agreement”) and the related Application, the following terms shall have the meaning set forth below unless a different meaning is plainly required by the context:

- (a) **“Account”** means the individual account established in accordance with Code §530 and under this Agreement and that shall at all times be nonforfeitable.
- (b) **“Application”** means the accompanying instrument executed by the party establishing the Account.
- (c) **“Authorized Person”** means the person described in Section 2(c).
- (d) **“Beneficiary”** or **“beneficiary”** means the person or entity (including a trust or estate) designated in a form and manner acceptable to the Custodian, or otherwise entitled to receive the Account after the death of the Recipient.
- (e) **“Code”** means the Internal Revenue Code of 1986, as amended from time to time.
- (f) **“Custodian”** means Capital Bank and Trust Company, or any successor thereto.
- (g) **“Fund”** means shares of one or more of the investment companies for which the Custodian or its affiliates serves as investment adviser.
- (h) **“Recipient”** means the individual for whose benefit the Account is maintained, as designated pursuant to Section 2(d).
- (i) **“Regular Contribution”** means a contribution to the Account pursuant to Section 3(a).
- (j) **“Rollover Contribution”** means a contribution to the Account pursuant to Section 3(b).

**Section 2 — Establishment of Account**

- (a) **Designation Under Code §530.** The Account established hereunder shall be a Coverdell Education Savings Account within the meaning of §530 of the Code. The Account is created exclusively for the purpose of paying the qualified education expenses (within the meaning of §530(b)(2) of the Code) of the Recipient or successor Recipient.
- (b) **Establishment of Account.** The Authorized Person defined in Section 2(c) herein may apply to establish an Account sponsored by the Custodian. By accepting such application, the Custodian accepts custodianship of the Account. The Account shall be effective as of the date it is accepted by the Custodian and shall be subject to the terms and conditions of this Agreement.
- (c) **Identity of the Authorized Person.** For purposes of this Agreement, the “Authorized Person” shall be the parent or legal guardian of the Recipient. The Authorized Person may elect in a form and manner acceptable to the Custodian that the Recipient shall be substituted for the existing

Authorized Person upon the Recipient’s attainment of the age of majority in accordance with the laws of the state of residence of the Recipient or at any later date before the Recipient’s attainment of age 30. If the Authorized Person becomes incapacitated or dies, the Authorized Person shall be (i) the Recipient, if the Recipient is not incapacitated and has reached the age of majority, (ii) if the incapacitated or deceased Authorized Person is the Recipient’s parent and clause (i) does not apply, the Recipient’s other parent, if any, or otherwise (iii) the Recipient’s legal guardian.

- (d) **Recipient Designations.** The Authorized Person shall designate a Recipient in a form and manner acceptable to the Custodian. At any time before the Recipient attains age 30, the Authorized Person may designate a successor Recipient in a form and manner acceptable to the Custodian; provided that any new Recipient shall be an eligible member of the family (within the meaning of §529(e)(2) of the Code) of the Recipient.
- (e) **Beneficiary Designations.** The Authorized Person may, in a form and manner acceptable to the Custodian, designate a Beneficiary to whom the Account shall be distributed if the Recipient should die before attaining age 30. If no Beneficiary is named, the Beneficiary is the Recipient’s estate.
- (f) **Special Needs Individual.** A special needs individual is a person who, because of a physical, mental or emotional condition requires additional time to complete his or her education. The age limitations of the Agreement do not apply to a Recipient who is a special needs individual.

**Section 3 — Contributions**

- (a) **Regular Contributions.** Subject to the limitations imposed by Section 4, any person shall be permitted to make a contribution to the Account. A contribution pursuant to this Section 3(a) shall be made on or before the tax filing deadline (excluding extensions) for the calendar year to which it relates.
- (b) **Rollover Contributions.** Subject to the limitations imposed by §530(d)(5) of the Code and Section 4, any person may contribute to the Account some portion or all of any amount that was distributed from an education savings account (within the meaning of §530 of the Code) established for the Recipient or a member of the family (within the meaning of §529(e)(2) of the Code) of the Recipient who had not attained age 30 at the time of such distribution. Such contribution, however, must be made no later than the 60th day after the date of such distribution.

**Section 4 — Limitations on Contributions**

- (a) **Aggregate Annual Limit.** No Regular Contribution shall be made to the Account for any calendar year to the extent the contribution will cause the sum of all Regular Contributions to any education savings account, including this Account, for the Recipient to exceed the limit set forth in §530(b)(1)(A)(iii) of the Code.
- (b) **Form of Contribution.** All Regular Contributions shall be made in cash, and all Rollover Contributions to the Account shall be made in cash, Fund shares or any combination thereof.
- (c) **Age of Recipient.** No Regular Contributions to the Account shall be made after the date on which the Recipient attains age 18, unless the Recipient is a special needs individual.
- (d) **Regular Contribution Phase-Out.** The annual limit on Regular Contributions set forth in Section 4(a) shall be reduced to the extent required by §530(c) of the Code.

**Section 5 — Investments**

- (a) **Investment Instructions.** Pursuant to the Authorized Person’s written instructions, each cash contribution to the Account shall be applied to the purchase of shares of the Fund or Funds currently designated by the Authorized Person at the applicable offering price in accordance with the terms of such Fund’s prospectus. The assets of the Account will not be commingled with other Custodian property, and the purchase of Fund shares shall not be considered commingling.

The Authorized Person may from time to time change the designation of the Fund for investment of Account assets hereunder and may instruct the Custodian to exercise the exchange privilege set forth in the Fund’s prospectus. By giving instructions to the Custodian to invest in a Fund, the Authorized Person shall be deemed to have acknowledged receipt of the current prospectus or other offering material for such Fund.

If any investment instructions are unclear in the opinion of the Custodian, or if any contribution exceeds the maximum Regular Contribution amount and is not identified as a Rollover Contribution, the Custodian may hold or return all or a portion of the contribution uninvested without liability for loss of income or depreciation and without liability for interest, pending receipt of proper instructions or clarification.

- (b) **Reinvestment of Earnings.** All dividends and capital gain distributions shall be reinvested in Fund shares.
- (c) **Registration of Assets.** Fund shares acquired by the Custodian shall be owned by and registered in the name of the Custodian or of its registered nominee for the benefit of the Recipient or any successor Recipient under this Agreement. The Custodian shall deliver, or cause to be delivered, to the Authorized Person at the Recipient’s address of record all notices, prospectuses,



financial statements, proxies and proxy solicitation materials relating to the Funds held under the Account. The Custodian shall not vote any interest in any Fund held under the Account except in accordance with written instructions received from the Authorized Person; provided that the Custodian may without written direction from the Authorized Person vote shares "present" solely for purposes of establishing a quorum.

- (d) **Limitation on Investments.** No part of an Account shall be invested in life insurance contracts.
- (e) **Responsibility of Custodian and its Affiliates.** The Authorized Person acknowledges that the Custodian does not undertake to render any investment advice and that the Custodian is not responsible for any loss, depreciation or tax effect that results from the Authorized Person's exercise of (or failure to exercise) investment control of the Account.

If acceptable to the Custodian, the Custodian or its designated agent ("Agent") is authorized to establish share accumulation accounts and systematic withdrawal plans (as described in the prospectus of the Fund and as customarily entered into with other shareholders of the Fund) for the purpose of receiving and investing the contributions made hereunder and reinvesting income dividends and capital gain distributions.

## Section 6 — Distributions

- (a) **Distributions.** The Authorized Person may elect in a form and manner acceptable to the Custodian to have all or any part of the Account distributed to any person or entity designated by the Authorized Person.
- (b) **Return of Excess Contributions.** Upon request of the Authorized Person in a form and manner acceptable to the Custodian, the Custodian shall pay as soon as practicable any excess contribution (within the meaning of §4973(e) of the Code), and any net income attributable to such excess contribution, as directed by the Authorized Person.
- (c) **Distributions on Death.** If the Recipient's spouse or other family member (within the meaning of Code §529(e)(2)), is the Beneficiary, the spouse or other family member shall be treated as the Recipient, provided the spouse or other family member is under age 30 at the time of the Recipient's death. If the Beneficiary is other than the spouse or other family member, or if the spouse or family member is over age 30, the account will cease to be an education savings account, and it will be converted to a regular shareholder account unless the Custodian receives the written direction of the Beneficiary to distribute the account in a single sum.
- (d) **Transfer Incident to Divorce or Legal Separation.** Notwithstanding anything to the contrary in this Agreement, including Section 11(c), the Authorized Person or any court may direct the Custodian to transfer all or a portion of the Recipient's Account into an education savings account of the Recipient's spouse or former spouse incident to divorce or legal separation as provided in Code §220(f)(7) and incorporated by reference by Code §530(d)(7).

- (e) **Responsibility of the Custodian.** Except to the extent otherwise required by applicable law or this Agreement, the Custodian shall make distributions from the Account only at the direction of the Authorized Person. The Custodian shall have no responsibility for the tax consequences of any distribution, or the failure to elect any distribution, from the Account. Such responsibility shall be solely that of the Authorized Person, Recipient or distributee, as the case may be.
- (f) **Distributions Due to Attachment, Garnishment or Levy.** Notwithstanding anything to the contrary in this Agreement, including Section 11(c), to the extent permitted by applicable law, the Custodian, upon receipt of an order of attachment, garnishment, levy or other similar order from any court, the Internal Revenue Service, any state taxing authority or any other entity lawfully entitled to issue such orders, against the Recipient or Account (individually and collectively "Order"), may redeem shares, with or without notice, of the Fund or Funds in the Account, and forward the proceeds to satisfy such an Order. The Custodian may redeem the shares on a pro rata basis in the Fund or Funds. Except as otherwise provided by applicable law, the Custodian shall not be liable for any action taken in good faith and in exercise of due care.
- (g) **Issuance of a Check.** Upon issuance of a check from the Account, no additional earnings will accrue to the Account with respect to the uncashed check. Earnings on uncashed checks may accrue to the Custodian at a money market rate of return. Such earnings will accrue from the date upon which a check is mailed, one business day after the redemption or sale is processed, until the date upon which the check is presented for payment.

## Section 7 — Administration

- (a) **Custodian Reports.** The Custodian shall submit to the Internal Revenue Service and to the Recipient reports that contain information prescribed by the Internal Revenue Service. Such reports shall be filed at such time and in such manner and furnished to such individuals at such time and in such manner as prescribed by the Internal Revenue Service. The Custodian shall furnish an annual calendar-year statement to the Authorized Person setting forth receipts, investments, disbursements and other transactions. Upon expiration of 45 days after forwarding such statement, the accounting in such report shall be deemed final and the Custodian shall, to the extent permitted by applicable law, be forever released and discharged from all liability and accountability with respect to items set forth in or omitted from such report, except with respect to any such acts or transactions as to which the Authorized Person shall have filed written objections with the Custodian within such 45-day period. Any report provided by the Custodian pursuant to this Section 7(a) shall be deemed given to the Authorized Person when mailed to the Authorized Person at the Recipient's address on record with the Custodian.

- (b) **Duties of the Authorized Person.** In addition to any other duties imposed upon the Authorized Person under this Agreement, the Authorized Person shall have sole responsibility for determining whether any contribution to or distribution from the Account shall be permitted, including, but not limited to, the responsibility to determine the permissibility, amount and tax effect of any contribution to or distribution from the Account, the responsibility to instruct the Custodian to make distributions pursuant to Section 6(a), and the responsibility to determine whether a distribution from the Account is for the purpose of paying the qualified education expenses (within the meaning of §530(b)(2)(A) of the Code) of the Recipient. The Authorized Person also shall be responsible for ensuring that any Recipient designations hereunder comply with the requirements of Section 2(d). The Authorized Person agrees to provide in a form and manner acceptable to the Custodian any information that may be necessary or helpful for the Custodian to fulfill its duties hereunder, including, but not limited to, the preparation of reports required by the Internal Revenue Service.
- (c) **Custodian Fees and Expenses.** The Custodian shall receive fees for its services hereunder in such amount as it shall establish from time to time, including, but not limited to, services rendered for the processing of distribution requests and recipient claims. In addition, the Custodian shall receive reasonable fees for any unusual or special services rendered. Any income taxes or other taxes of any kind whatsoever that may be levied or assessed upon or in respect of the Account shall be paid from the assets of the Account. The compensation of the Custodian, any transfer taxes incurred in connection with the investment and reinvestment of the assets of the Account and all administrative expenses incurred by the Custodian in the performance of its duties, including fees for legal services rendered to the Custodian, shall either be reduced from contributions and charged to the Account or shall be paid by redeeming or surrendering the necessary assets credited to the Account, unless otherwise paid by the Authorized Person, but until paid shall constitute a lien upon the assets of the Account.
- (d) **Duties of the Custodian.** The parties do not intend to confer any fiduciary duties on the Custodian, and none shall be implied. The Custodian may rely conclusively upon and shall be protected in acting upon any written instruction from the Authorized Person or any other notice, request, consent or certificate reasonably believed by it to be genuine. The Custodian shall have no obligation to verify the allowability, amount or tax effect of any contribution made to or distribution made from the Account, and the Custodian shall be entitled to rely completely on any instructions furnished to it by the Authorized Person and shall have no duty or obligation to question such instructions.
- (e) **Delegation of Authority.** The Custodian may delegate to any other person or entity the authority to carry out any of the responsibilities of the Custodian hereunder, except that assets of the Fund must be registered as set forth in Section 5(c).



(f) **Indemnification.** To the extent permitted by applicable law, the Authorized Person shall fully indemnify the Custodian and hold it harmless from any and all liability whatsoever that may arise in connection with this Agreement and matters that it contemplates, except those that arise due to the Custodian's gross negligence or willful misconduct. The Custodian shall not be obligated or expected to commence or defend any legal action or proceeding in connection with this Agreement unless agreed upon by the Custodian and the Authorized Person and unless the Custodian is fully indemnified to the Custodian's satisfaction for so doing. This Section 7(f) shall survive the termination of the Account.

## Section 8 — Amendment

The Custodian reserves the right to amend this Agreement at any time in any manner that will not cause the Account to fail to satisfy the requirements of §530 of the Code. Any amendment by the Custodian shall be effective upon communication, in writing, to the Authorized Person, and the Authorized Person shall be deemed to have consented thereto unless, within 30 days after such communication to the Authorized Person is mailed, the Authorized Person gives the Custodian an instruction in a form and manner acceptable to the Custodian for a total distribution of the Fund pursuant to Section 6(a) or for a transfer of the Account to a successor custodian pursuant to Section 9(a).

## Section 9 — Resignation or Removal of Custodian

(a) **General.** The Custodian may resign and a successor custodian may be appointed at any time upon at least 30 days' prior written notice to the Authorized Person. The Authorized Person may remove the Custodian and appoint a successor custodian at any time upon 30 days' prior written notice to the Custodian. Upon such resignation or removal, and upon receipt by the Custodian of written acceptance of its appointment by the successor custodian, which must be a bank or other person qualified to serve as a custodian under §530(b)(1)(B) of the Code, the Custodian shall transfer the Account. The Custodian is authorized, however, to reserve such portion of the Account as it may deem advisable for payment for all its fees, compensation, costs and expenses or for payment of any other liabilities constituting a charge on or against the Fund or on or against the Custodian, with any balance of such reserve remaining after the payment of all such items to be paid over to the successor custodian. If, within 30 days after the Custodian's resignation or removal, or such longer time as the Custodian may agree to, the Authorized Person or Custodian has not appointed a successor custodian that has accepted such appointment, the Custodian shall terminate the Account in accordance with the provisions of Section 10.

(b) **Responsibility of the Custodian.** After the Custodian has transferred the Account (including any reserve balance) to the successor custodian pursuant to Section 9(a), the Custodian shall be relieved of all further liability with respect to this Agreement and the Account, including, but not limited to, any acts or omissions of the successor custodian.

(c) **Responsibility of Successor Custodian.** No successor custodian appointed pursuant to Section 9(a) shall be liable or responsible for any act or default of any predecessor custodian, nor shall any successor custodian be required to inquire into or take any notice of the prior administration of the Account.

## Section 10 — Termination of the Account

(a) **Time of Termination.** The Authorized Person may terminate the Account at any time upon prior written notice to the Custodian. The Custodian shall terminate the Account if, within the time specified in Section 9(a) after the Custodian's resignation or removal, the Authorized Person has not appointed a successor custodian that accepted such appointment. Unless earlier terminated in accordance with the foregoing provisions of this Section 10(a), the Account will be terminated on the date all assets are distributed. Furthermore, unless earlier terminated in accordance with the foregoing provisions of this Section 10(a), the Account shall cease to be treated as an education savings account on the earliest of (i) the date the Recipient attains age 30, or (ii) the date of the Recipient's death.

(b) **Manner of Termination at Death.** If the Account is terminated on account of the death of the Recipient, termination shall be effected according to Section 6(c) of this Agreement. For purposes of Section 10(a) and this Section 10(b), the Custodian shall presume that the Recipient is still living until the Custodian receives, in a form and manner acceptable to the Custodian, written notification of the Recipient's death and instructions to terminate the Account and distribute its assets in accordance with Section 6(c).

(c) **Other Terminations.** If the Account is terminated on account of any reason (other than the death of the Recipient), including but not limited to termination when the Recipient attains age 30, termination shall be effected by reregistering the Account as a regular shareholder account in the name of the Recipient, or by distributing the Account upon the Authorized Person's written instruction. Such instruction shall be in a form and manner acceptable to the Custodian. If no such instruction is given in a case where no successor custodian has been appointed (or where no successor custodian has accepted appointment) in accordance with Section 9(a), termination shall be effected by distributing the Account to the Authorized Person for the benefit of the Recipient. Any distribution pursuant to Section 10(b) or this Section 10(c) shall be subject to the Custodian's right to reserve funds as provided in Section 9(a).

(d) **Responsibility of the Custodian.** Upon termination of the Account, this Agreement shall terminate and, except for the continued applicability of Section 7(f), shall have no further force and effect, and the Custodian shall be relieved from all further liability with respect to this Agreement and the Account.

## Section 11 — Miscellaneous

(a) **Construction.** Unless the contrary is plainly required by the context, wherever any words are used herein in the singular form, they shall be construed as though they were also used in the plural form, and vice versa; and wherever the words "herein," "hereof," "hereunder," and words of similar import are used, they shall be construed to refer to this Agreement in its entirety and not only to the portion of the Agreement in which they appear.

(b) **Notices.** Any notice, report, accounting or other communication that the Custodian may give the Authorized Person shall be deemed given when mailed to the Authorized Person at the address of the Recipient on record with the Custodian, and any notice given to the Authorized Person shall be deemed given to the Recipient as well. All notices that the Authorized Person is required pursuant to this Agreement to give to the Custodian shall be deemed given when received by the Custodian at its principal office.

(c) **Prohibition Against Assignment.** Except as provided in Sections 6(b), 6(d), 6(f), 7(c), 9(a), 10(b) and 10(c), no interest, right or claim in or to any portion of the Fund or any payment therefrom shall be assignable, transferable or subject to sale, mortgage, pledge, hypothecation, commutation, anticipation, garnishment, attachment, execution or levy of any kind. The Custodian shall not recognize any attempt to do any of the foregoing except to the extent required by law.

(d) **Severability.** If any provision of this Agreement should be held illegal or invalid for any reason, such illegality or invalidity shall not affect the remaining parts of the Agreement, and the Agreement shall be construed and enforced as if such illegal or invalid provision had never been inserted herein.

(e) **Governing Law.** This Agreement shall be construed, administered and enforced according to federal law and, to the extent applicable, according to the law of the state of California, determined without regard to its choice of law rules. The Internal Revenue Service has issued guidance (IRS Notice 97-60) on the higher education tax incentives enacted under the Taxpayer Relief Act of 1997. Here is a summary of some of the financial and tax consequences of establishing an education savings account.



Beginning January 1, 2002, taxpayers may deposit up to \$2,000 per year into an education savings account for a child under age 18. This does not apply to special needs individuals. Parents, grandparents, other family members, friends, corporations and other entities, including tax-exempt organizations, and a child himself or herself may contribute to the child's education savings account, provided that the total contributions for the child for the taxable year do not exceed the \$2,000 limit. Amounts deposited in the account grow tax-free until distributed, and the child will not owe tax on any withdrawal from the account if the child's qualified education expenses at an eligible educational institution for the year equal or exceed the amount of the withdrawal. If the child does not need the money for education, the account balance can be rolled over to the education savings account of certain family members who can use it for their education. Amounts withdrawn from an education savings account that exceed the child's qualified education expenses in a taxable year are generally subject to income tax and to an additional tax of 10%.

**Establishing an Education Savings Account**

An education savings account is a trust or custodial account that is created or organized in the United States exclusively for the purpose of paying the qualified education expenses of the child for whom the account was established. The account must be designated as an education savings account when it is created in order to be treated as an education savings account for tax purposes. The account may be established for any child under age 18 or a special needs individual regardless of age at any bank or other entity that has been approved to serve as a non-bank trustee or custodian of an education savings account. See IRS Notice 97-57, 1997-43 I.R.B. (October 27, 1997) for more information about who can serve as the trustee or custodian of an education savings account. Capital Bank and Trust Company qualifies as an education savings account custodian. Accounts may be established beginning on January 1, 1998.

**Contributions to the Custodial Account**

**Limitations on Amount of Contribution.** Up to \$2,000 may be contributed for any calendar year to all accounts for a single recipient. Contributions may only be made in cash to an education savings account.

**Limitation on Who Can Make a Contribution.** Any individual, even the child himself or herself, may contribute up to \$2,000 a year if the contributor's modified adjusted gross income for the taxable year is not more than \$95,000 (\$190,000 for married taxpayers filing jointly). The \$2,000 maximum contribution per child is gradually reduced for individuals with modified adjusted gross income between \$95,000 and \$110,000 (between \$190,000 and \$220,000 for married taxpayers filing jointly). For most taxpayers, modified adjusted gross income is the same as adjusted gross income. Taxpayers compute adjusted gross income as part of completing

a federal income tax return. For those taxpayers who earn income abroad or receive income from certain American territories or possessions, modified adjusted gross income will be greater than adjusted gross income (see IRS Notice 97-60, Section 1, Q&A 6 for more specific information). Entities such as corporations, trusts and nonprofit organizations can make contributions to an education savings account. No income limits apply to such entities.

**Deductibility of Contributions.** Contributions made to an education savings account are not eligible for tax deductions by the contributor or any other person.

**Excess Contributions.** Aggregate contributions for the benefit of a particular child in excess of \$2,000 for a calendar year are treated as excess contributions. If the excess contributions (and any earnings attributable to them) are not withdrawn by June 1 of the following year, they are subject to a 6% excise tax for each year the excess amount remains in the account.

**Investment of Contributions.** Under the terms of the Custodial Agreement, contributions to the account will be invested by the Custodian, Capital Bank and Trust Company, in accordance with instructions of the Authorized Person. These investment instructions must direct the Custodian to invest contributions in shares of the mutual fund(s) the Authorized Person designates. If the Authorized Person fails to make such a designation, the Custodian may hold or return all or a portion of the contribution to the Authorized Person.

**Coordination with Qualified Tuition Programs.** Contributions can be made to both an education savings account and a qualified tuition program in the same year for the same child.

**Distributions From the Education Savings Account**

**Taxation of Distributions.** A tax-free distribution from the education savings account may be made on the behalf of the child for whom the education savings account was established to pay for "qualified education expenses" if the child is enrolled at an "eligible educational institution." "Qualified education expenses" mean expenses for tuition, fees, books, supplies and equipment required for the enrollment or attendance of the child at an eligible educational institution, amounts contributed to a qualified tuition program under Code Section 529 and room and board if the designated beneficiary is at least a half-time student at an eligible educational institution. For more specific information about what qualifies as half-time, refer to IRS Notice 97-60 Section 1, Q&A 3. An "eligible educational institution" is any elementary or secondary school or any college, university, vocational school or other post-secondary educational institution that is described in Section 481 of the Higher Education Act of 1965 (20 U.S.C. 1088) and, therefore, eligible to participate in the student aid programs administered by the Department of Education. This category includes virtually all accredited public or private educational institutions.

**Taxation and Penalties on Distributions for Non-Qualified Education Expenses.** Generally, if a distribution is made from an education savings account and the child does not have any qualified education expenses during the taxable year, a portion of the distribution is taxable. The taxable portion represents earnings that have accumulated tax-free in the account and is subject to a 10% additional tax unless an exception applies.

**Treatment of Account at Completion of Post-Secondary Education.** When a child (for whom an education savings account was established) finishes post-secondary education and has not yet reached age 30, there are two options for the treatment of the account's assets. The amount remaining in the account may be withdrawn for the grown child. It will be subject to income tax and the additional 10% tax on earnings if the grown child has no qualified higher education expenses in the same taxable year the withdrawal is made. Alternatively, if the amount in the child's education savings account is withdrawn and rolled over to an education savings account for another family member, the amount rolled over will not be taxable. The age limitations of this section do not apply to a special needs individual.

**Rollovers.** Any amount distributed and rolled over to another education savings account for the benefit of the same child or certain members of such child's family is not taxable. Only one rollover is allowed in a 12-month period. An amount is rolled over if it is paid to an education savings account within sixty (60) days of distribution. Members of the child's family include the child's children and their descendants, stepchildren and their descendants, siblings and their children, parents and grandparents, stepparents, stepsiblings, aunts, uncles, first cousins and spouses of all the foregoing. The \$2,000 annual contribution limit does not apply to rollover contributions.

**Naming a New Recipient.** An education savings account may be redesignated to a different child in the same family in lieu of rolling over the money.

**Other Important Tax Implications**

**Hope Scholarship Credit or Lifetime Learning Credit.** If a student is receiving a tax-free distribution from an education savings account, that student's expenses may be claimed as the basis for a Hope Scholarship Credit or Lifetime Learning Credit for that tax year if the amounts are for different expenses. For more information regarding either of these credits, refer to IRS Notice 97-60, Sections 1 and 2.

**Coordination With Qualified Tuition Programs.** Withdrawals can be made from both an education savings account and a qualified tuition program in the same year for the same child as long as amounts are used for different expenses.