

**CONSTELLATION TRUST COMPANY**  
**Coverdell Education Savings Custodial Agreement**

Form 5305-EA  
(Rev. March 2002)

The individual whose name appears on the Coverdell Education Savings Custodial Account Adoption Agreement (hereinafter called "Depositor") is establishing a Coverdell Education Savings Custodial Account ("Coverdell ESA") with Constellation Trust Company (hereinafter referred to as "Custodian") under section 530 for the benefit of the designated beneficiary identified therein (the "Designated Beneficiary") exclusively to pay for the qualified elementary, secondary, and higher education expenses, within the meaning of section 530(b)(2), of such Designated Beneficiary. Constellation Trust Company, as Custodian, and the Depositor hereby make the following agreement (the "Agreement"):

**Article I.**

The Custodian may accept additional cash contributions provided the Designated Beneficiary has not attained the age of 18 as of the date such contributions are made. Contributions by an individual contributor may be made for the tax year of the Designated Beneficiary by the due date of the Designated Beneficiary's tax return for that year (excluding extensions). Total contributions that are not rollover contributions described in section 530(d)(5) are limited to \$2,000 for the tax year. In the case of an individual contributor, the \$2,000 limitation for any year is phased out between modified adjusted gross income (AGI) of \$95,000 and \$110,000. For married individuals filing jointly, the phase-out occurs between modified AGI of \$190,000 and \$220,000. Modified AGI is defined in section 530(c)(2).

**Article II.**

No part of the Coverdell ESA funds may be invested in life insurance contracts, nor may the assets of the Coverdell ESA be commingled with other property except in a common investment fund (within the meaning of section 530 (b)(1)(D)).

**Article III.**

1. Any balance to the credit of the Designated Beneficiary on the date on which he or she attains age 30 shall be distributed to him or her within 30 days of such date.
2. Any balance to the credit of the Designated Beneficiary shall be distributed within 30 days of his or her death unless the designated death beneficiary is a Family Member of the Designated Beneficiary and is under the age of 30 on the date of death. In such case, the Family Member shall become the Designated Beneficiary as of the date of death.

**Article IV.**

The Depositor shall have the power to direct the Custodian regarding the initial investment of the amount set forth on the application assigned to the Coverdell ESA (including earnings thereon) in the investment choices offered by the Custodian. The Responsible Individual, however, shall have the power to redirect the Custodian regarding the investment of such amounts, as well as the power to direct the Custodian regarding the investment of all additional contributions (including earnings thereon) to the Coverdell ESA. In the event that the Responsible Individual does not direct the Custodian regarding the investment of additional contributions (including earnings thereon), the initial investment direction of the Depositor also will govern all additional contributions made to the custodial account until such time as the Responsible Individual otherwise directs the Custodian. Unless otherwise provided in this Agreement, the Responsible Individual also shall have the power to direct the Custodian regarding the administration, management, and distribution of the Coverdell ESA.

**Article V.**

The "Responsible Individual" named by the Depositor shall be a parent or guardian of the Designated Beneficiary. The Coverdell ESA shall have only one Responsible Individual at any time. If the Responsible Individual becomes incapacitated or dies while the Designated Beneficiary is a minor under state law, the successor Responsible Individual shall be the person named to succeed in that capacity by the preceding Responsible Individual in a witnessed writing or, if no

successor is so named, the successor Responsible Individual shall be the Designated Beneficiary's other parent or successor guardian. Unless otherwise directed by checking the option on the Account Adoption Agreement, at the time that the Designated Beneficiary attains the age of majority under state law, the Designated Beneficiary becomes the Responsible Individual. If a Family Member under the age of majority under state law becomes the Designated Beneficiary by reason of being a named death beneficiary, the Responsible Individual shall be such Designated Beneficiary's parent or guardian.

**Article VI.**

The Responsible Individual may change the Beneficiary designated under this Agreement to another member of the Designated Beneficiary's Family described in Section 529(e)(2) in accordance with the Custodian's procedures.

**Article VII.**

1. The Depositor agrees to provide the Custodian with all information necessary to prepare any reports required by section 530(h).
2. The Custodian agrees to submit to the Internal Revenue Service ("IRS") and Responsible Individual the reports prescribed by the IRS.

**Article VIII.**

Notwithstanding any other articles which may be added or incorporated, the provisions of Articles I through III will be controlling. Any additional articles that are not consistent with section 530 and the related regulations will be invalid.

**Article IX.**

This Agreement will be amended as necessary to comply with the provisions of the Code and the related regulations. Other amendments may be made with the consent of the Depositor and the Custodian whose signatures appear on the Account Adoption Agreement.

**Article X.**

**Applicable Law:** This Agreement shall be governed by the laws of the state of Nebraska.

**Annual Accounting:** The Custodian shall, at least annually, provide the Responsible Individual with an accounting of such Designated Beneficiary's account. Such accounting shall be deemed to be accepted by the Responsible Individual, if the Responsible Individual does not object in writing within 60 days after the mailing of such accounting.

**Amendment:** The Depositor and Responsible Individual irrevocably delegate to the Custodian the right and power to amend this Agreement. Except as hereafter provided, the Custodian will give the Responsible Individual 30 days notice of any such amendment, or if later, the time required to be given under regulation or other guidance provided by the IRS. The Depositor and Responsible Individual shall be deemed to have consented to any such amendment unless the Responsible Individual notifies the Custodian to the contrary within 30 days after notice to the Responsible Individual and requests a distribution or transfer of the balance in the Coverdell ESA.

**Resignation and Removal of Custodian:**

- a. The Custodian may resign at any time by providing at least 30 days written notice to the Responsible Individual. The Custodian may resign and appoint a successor trustee or custodian to serve under this Agreement or under another governing instrument selected by the successor trustee or custodian by giving the Responsible Individual written notice at least 30 days prior to the effective date of such resignation and appointment, which notice shall also include a copy of such other governing instrument, if applicable, and the related disclosure statement. The Responsible Individual shall then have 30 days from the date of such notice to either request a complete distribution of the account balance or designate a different successor trustee or custodian. If the Responsible Individual does not request distribution of the account or designate a different successor trustee or custodian then the Responsible Individual shall be deemed to have consented to the appointment of the successor trustee or custodian and the term of any new governing instrument, and neither the Depositor, Designated Beneficiary, Responsible Individual nor the successor shall be required to execute any written document to complete the transfer of the accounts to the successor trustee or custodian. The successor trustee or custodian may rely on any information, including death beneficiary designation, previously provided by the Depositor or Responsible Individual.
- b. The Responsible Individual may at any time remove the Custodian and replace the Custodian with a successor trustee or custodian of the Responsible Individual's choice by providing 30 days advance written notice to the Custodian. In such event, the Custodian shall then deliver the assets of the account as directed by the Responsible Individual. However, the Custodian may retain a portion of the assets of the Coverdell ESA as a reserve for payment of any anticipated remaining fees and expenses, and shall pay over any remainder of this reserve to the successor trustee or custodian upon satisfaction of such fees and expenses.

**Liquidation of Assets:** The Custodian has the right to liquidate assets in the Coverdell ESA as necessary to make distributions or to pay fees, expenses or taxes properly chargeable against the Coverdell ESA. Unless otherwise directed by the Responsible Individual, the Custodian will decide in its sole discretion which assets to liquidate and the Responsible Individual agrees not to hold the Custodian liable for any adverse consequences that result from the Custodian's decision.

**Custodian's Fees and Expenses:**

- a. The Depositor and Responsible Individual agree to pay the Custodian any and all fees specified in the Custodian's current published fee schedule for establishing and maintaining this Coverdell ESA, including any fees for distributions for, transfer from, and terminations of this Coverdell ESA. The Custodian may change its fee schedule at any time by providing the Responsible Individual 30 days prior written notice.
- b. The Depositor and Responsible Individual agree to pay any expenses incurred by the Custodian in the performance of its duties in connection with the account. Such expenses include, but are not limited to, administrative expenses, such as legal and accounting fees, and any taxes of any kind whatsoever that may be levied or assessed with respect to such account.

- c. All such fees, taxes, and other administrative expenses charged to the Coverdell ESA shall be collected either from the assets in the Coverdell ESA or from any contributions to or distribution from such account if not paid by the Depositor or Responsible Individual.
- d. In the event that for any reason the Custodian is not certain as to who is entitled to receive all or part of the custodial funds, the Custodian reserves the right to withhold any payment from the custodial account, to request a court ruling to determine the disposition of the custodial account assets, and to charge the custodial account for any expenses incurred in obtaining such legal determination.

**Withdrawal Requests:** All requests for withdrawal, distribution, or payment from the Coverdell ESA shall be in writing on a form provided and accepted by the Custodian. Such written request must also specify the reason for the withdrawal, distribution, or payment and the desired method or form of withdrawal, payment, or distribution.

**Responsibilities:** The Depositor and Responsible Individual agree that all information and instruction given to the Custodian by the Depositor and Responsible Individual are complete and accurate and that the Custodian shall not be responsible for any incomplete or inaccurate information provided by the Depositor and Responsible Individual. The Depositor and Responsible Individual agree to be responsible for all tax consequences arising from contributions to and distributions from this Coverdell ESA and each acknowledge that no tax advice has been provided by the Custodian.

The Custodian shall not be liable for any act, omission, or determination made in connection with this Agreement except for its intentional misconduct or gross negligence. Without limiting the generality of the foregoing, the Custodian shall not be liable for any losses arising from its compliance with the Depositor's or Responsible Individual's written or oral directions. The Custodian shall be under no duties whatsoever except such duties as are specifically set forth in this Agreement. The Custodian shall be fully protected in acting upon any instrument, certificate, or paper reasonably believed by it to be genuine and to be signed or presented by the proper person or persons, and the Custodian shall be under no liability to make any investigation or inquiry as to any statement contained in any such writing but may accept the same as conclusive evidence of the truth and accuracy of the statement therein contained.

**Investment Provisions:** All contributions shall be invested and reinvested by the Custodian as directed by the Depositor and Responsible Individual. **(Please see Article XI; Self-Directed Coverdell ESA Provisions.)** It is understood and acknowledged by Depositor and Responsible Individual that the Custodian shall assume no responsibility, expressed or implied, for any loss or diminution of account and Depositor and Responsible Individual agree to indemnify and hold harmless the Custodian against any and all losses, costs, expenses or liabilities of any nature whatsoever incurred as a result of Custodian's execution of Depositor's, and Responsible Individual's investment instructions. Depositor and Responsible Individual agree that the Custodian is authorized to place cash in an interest bearing instrument. The Custodian may perform sub accounting and interest posting functions related to the Coverdell ESA as described in this section, and may receive a fee directly from the investment sponsor for these services. Depositor and Responsible Individual agree that such sub accounting services are necessary for the proper function of the Coverdell ESA and further agree to such fees being paid to the Custodian. It is understood by the Depositor and Responsible Individual that any investment Adviser (as defined below) may direct the Custodian to retain a specific amount of cash in the Coverdell ESA on deposit with the Custodian.

**Beneficiary:**

- a. Unless otherwise indicated on the Account Adoption Agreement, the Responsible Individual may not change the Designated Beneficiary. If the Depositor has indicated on the Application that the

Responsible Individual may change the beneficiary designated under this Coverdell ESA and the Responsible Individual chooses to do so, the Responsible Individual must designate a Family Member (as defined in section 529(e)(2)) of the existing Designated Beneficiary. This designation can only be made on a form prescribed by the Custodian.

- b. The Depositor or Responsible Individual may name one or more persons or entities as death beneficiary of the Coverdell ESA. This designation can only be made on a form prescribed by the Custodian and will only be effective when filed with the Custodian during the lifetime of the Designated Beneficiary. Each beneficiary designation filed with the Custodian will cancel all previous ones unless the beneficiary designation specifies otherwise. The consent of a death beneficiary shall not be required in order to revoke a death beneficiary designation. If a death beneficiary is not designated with respect to this Coverdell ESA, the Designated Beneficiary's estate will be the death beneficiary. If elected in the Account Adoption Agreement, while the Designated Beneficiary is a minor or otherwise lacks legal capacity, the Responsible Individual may at any time change the Designated Beneficiary for the Coverdell ESA to any Family Member under the age of 30 of the original Designated Beneficiary or direct the Custodian to roll over or transfer the funds in this Coverdell ESA to a Coverdell ESA for any Family Member of the original Designated Beneficiary under the age of 30.
- c. Any Change of Designated Beneficiary under this Coverdell ESA shall not be treated as a distribution, if the new Designated Beneficiary is a Family Member and such new Designated Beneficiary has not attained the age of 30, as of the date of such change.
- d. Notwithstanding Article III, a new Designated Beneficiary may be named within 30 days after the Designated Beneficiary attains the age of 30.

**Designated Beneficiary's Minority or Incapacity:** The following provisions apply while the Designated Beneficiary is a minor or lacks legal capacity:

- a. The Responsible Individual shall have, to the exclusion of the Designated Beneficiary, all of the rights, powers, and responsibilities granted to the Designated Beneficiary under this Agreement, including, without limitation, the right to receive accountings and notices of amendment and resignation, the power to remove and replace the Custodian, the power to direct investments, the power to request withdrawals, distribution, and payments, and the power to direct a rollover or transfer to the trustee or custodian for the Designated Beneficiary or another Family Member of the Designated Beneficiary, if applicable.
- b. In the event the Responsible Individual dies, becomes disabled, or otherwise fails or refuse to act and no successor Responsible Individual has been appointed, or no duly appointed Responsible Individual is willing or able to serve, then a parent of the Designated Beneficiary or the legal guardian or conservator of the estate of the Designated Beneficiary may appoint a Responsible Individual in writing on a form acceptable to and filed with the Custodian.

**Designated Death Beneficiary:** In accordance with Article III of this Agreement and if permitted by the Custodian, the Depositor or Responsible Individual shall have the right to name a Designated Death Beneficiary(ies) on a form provided by and acceptable to the Custodian. In the event of the Designated Beneficiary's death, such Designated Beneficiary(ies) shall be entitled to the remaining interest in the Coverdell ESA. If any such Designated Death Beneficiary is not a Family Member, the remaining balance of the account shall be distributed to the Designated Death Beneficiary within 30 days of the death of the Designated Beneficiary. If any such Designated Death Beneficiary is a Family Member, the remaining balances in the account shall become the Coverdell ESA of the Designated Death Beneficiary. If no death beneficiary designation is in effect or if none of the Death Beneficiaries survive the

Designated Beneficiary, the remaining balance will be paid to the estate of the Designated Beneficiary.

**Article XI.**

**SELF-DIRECTED COVERDELL ESA PROVISIONS**

**Investment of Contributions:** In conjunction with Article X of this Agreement, at the direction of the Depositor or Responsible Individual, the Custodian shall invest all contributions to the Coverdell ESA and earnings thereon in investments acceptable to the Custodian, which may include but are not limited to marketable securities traded on a recognized exchange or "over the counter", Real estate, trust deeds, real estate, limited partnerships, private placement offerings, certificates of deposit, and other investments to which the Custodian consents, in such amounts as are specifically selected and specified by Depositor, Responsible Individual, or a designated Investment Adviser in such form as may be acceptable to the Custodian, without any duty to diversify and without regard to whether such property is authorized by the laws of any jurisdiction as an investment. The Custodian shall be responsible for the execution of such orders and for maintaining adequate records thereof. However, if any such orders are not received as required, or if received, are unclear in the opinion of the Custodian, all or a portion of the contribution may be held uninvested without liability for loss of income or appreciation, and without liability for interest pending receipt of such orders or clarification, or the contribution may be returned. The Custodian may, but need not, establish programs under which cash deposits in excess of a minimum set by it will be periodically and automatically invested in interest-bearing deposits or investment. The Custodian shall have no duty other than to follow the written investment directions of the Depositor, Responsible Individual or appointed Investment Adviser, and shall be under no duty to question said instructions and shall not be liable for any investment losses sustained. The Responsible Individual shall retain all responsibility for the selection, management, and retention of investments.

**Registration:** All assets of the Coverdell ESA shall be registered in the name of the Custodian or a suitable nominee. The same nominee may be used with respect to assets of other investors whether or not held under agreements similar to this one or in any capacity whatsoever. However, each Designated Beneficiary's account shall be separate and distinct; a separate account therefore shall be maintained by the Custodian, and the assets thereof shall be held by the Custodian.

**Investment Adviser:** The Responsible Individual may appoint an Investment Adviser, qualified under Section 3(38) of the Employee Retirement Income Security Act of 1974, to direct the investment of the Coverdell ESA. The Responsible Individual shall notify the Custodian in writing of any such appointment, an acknowledgment by the Investment Adviser that it is a fiduciary of the account, and a certificate evidencing the Investment Adviser's current registration under the Investment Adviser's Act of 1940. The Custodian shall comply with any investment directions furnished to it by the Investment Adviser, unless and until it received written notification from the Responsible Individual that the Investment Adviser's appointment has been terminated. The Custodian shall have no duty other than to follow the written investment directions of such Investment Adviser and shall be under no duty to question said instructions, and the Custodian shall not be liable for any investment losses sustained by the Coverdell ESA.

**Representative:** On a form acceptable to the Custodian, the Responsible Individual may designate a representative for the purpose of communicating investment directions to the Custodian and receiving information on the account. Said representative (the "Representative") may be a registered representative of a broker/dealer organization, a financial advisor or other person as may be acceptable to the Depositor or Responsible Individual. The Representative shall be the authorized agent of the Responsible Individual and not an agent of the Custodian. The Custodian shall construe any and all investment directions given by the Representative, whether oral or written, as having been

properly authorized. The Responsible Individual may appoint and/or remove a Representative by written notice to the Custodian provided that the removal of a Representative shall not have the effect of canceling any notice, instruction, direction or approval received by the Custodian from the removed Representative before the Custodian receives said notice of removal.

**No Investment Advice:** The Custodian does not assume any responsibility for rendering advice with respect to the investment and reinvestment of Designated Beneficiary's account and shall not be liable for any loss which results from Depositor's and Responsible Individual's exercise of control over the Coverdell ESA.

**Prohibited Transactions:** Notwithstanding anything contained herein to the contrary, the Custodian shall not lend any part of the corpus or income of the account to, pay any compensation for personal services rendered to the account to; make any part of its services available on a preferential basis to; acquire for the account any property, other than cash, from; or sell any property to, any Designated Beneficiary, any member of a Designated Beneficiary's Family, or a corporation controlled by any Designated Beneficiary through the ownership, directly or indirectly, of 50 percent or more of the total combined voting power of all classes of stock entitled to vote, or of 50 percent or more of the total value of shares of all classes of stock of such corporation.

**Unrelated Business Income Tax:** If the Depositor or Responsible Individual directs investment of the Coverdell ESA in any investment which results in unrelated business taxable income, it shall be the responsibility of the Depositor or Responsible Individual to so advise the Custodian and to provide the Custodian with all information necessary to prepare and file any required returns or reports for the account. As the Custodian may deem necessary, and at the Designated Beneficiary's (or Depositor's or Responsible Individual's) expense, the Custodian may request a taxpayer identification number for the account, file any returns, reports, and applications for extension, and pay any taxes or estimated taxes owed with respect to the account. The Custodian may retain suitable accountants, attorneys, or other agents to assist it in performing such responsibilities.

**Disclosures and Voting:** The Custodian shall deliver, or cause to be executed and delivered, to the Responsible Individual all notices, prospectuses, financial statement, proxies and proxy soliciting materials relating to assets

credited to the Coverdell ESA. The Custodian shall not vote any shares of stock or take any other action, pursuant to such document, with respect to such assets except upon receipt by the Custodian of adequate written instructions from the Responsible Individual.

**Miscellaneous Expenses:** In addition to those expenses set out in Article X of this Agreement, the Depositor and Responsible Individual agree to pay any and all expenses incurred by the Custodian in connection with the investment of the Coverdell ESA, including expenses of preparation and filing any returns and reports with regard to unrelated business income, including taxes and estimated taxes, as well as any transfer taxes incurred in connection with the investment or reinvestment of the assets of the account.

#### **Instructions**

(Section references are to the Internal Revenue Code unless otherwise noted.)

**Purpose of Form:** Form 5305-EA is a model custodial account agreement that meets the requirements of Section 530(b)(1) and has been pre-approved by the IRS. A Coverdell Education Savings Account (ESA) is established after the form is fully executed by both the Depositor and the Custodian. This account must be created in the United States for the exclusive purpose of paying the qualified elementary, secondary, and higher education expenses of the Designated Beneficiary.

If the model account is a trust account, see Form 5305-E, Coverdell Education Savings Trust Account.

Do not file Form 5305-EA with the IRS. Instead, the Depositor must keep the completed form in its records.

#### **Definitions**

**Custodian:** The Custodian must be a bank or savings and loan association, as defined in Section 408(n), or any person who has the approval of the IRS to act as Custodian. Any person who may serve as Custodian of a Traditional IRA may serve as the Custodian of a Coverdell ESA.

**Depositor:** The Depositor is the person who establishes the custodial account.

**Designated Beneficiary:** The Designated Beneficiary is the individual on whose behalf the custodial account has been established.

**Family Member:** Family Member of the Designated Beneficiary include his or her spouse, child, grandchild, sibling, parent, niece or nephew, son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, sister-in-law, and the spouse of any such individual. A first cousin, but not his or her spouse, is also a "family member."

**Responsible Individual:** The Responsible Individual, generally, is a parent or guardian of the Designated Beneficiary. However, under certain circumstances, the Responsible Individual may be the Designated Beneficiary.

**Identification Numbers:** The Depositor's and Designated Beneficiary's social security number will serve as their identification numbers. If the Depositor is a nonresident alien and does not have an identification number, write "Foreign" in the block where the number is requested. The Designated Beneficiary's social security number is the identification number of his or her Coverdell ESA. If the Designated Beneficiary is a nonresident alien, the Designated Beneficiary's individual taxpayer identification number is the identification number of his or her Coverdell ESA. An employer identification number (EIN) is required only for a Coverdell ESA for which a return is filed to report unrelated business income. An EIN is required for a common fund created for Coverdell ESAs.

#### **Specific Instructions**

**Note:** The age limitation restricting contribution, distribution, rollover contribution, and change of beneficiary are waived for a Designated Beneficiary with special needs.

**Article X:** Article X and any that follow may incorporate additional provisions that are agreed to by the Depositor and Custodian to complete the agreement. They may include, for example, provisions relation to: definitions, investment powers, voting rights, exculpatory provisions, amendment and termination, removal of the Custodian, Custodian's fee, state law requirement, treatments of excess contribution, and prohibited transactions with the Depositor, Designated Beneficiary, or Responsible Individual, etc. Attach additional pages as necessary.

**Optional Provision in Article V and Article VI:** Form 5305-EA may be reproduced in a manner that provides only those optional provisions offered by the Custodian.

# CONSTELLATION TRUST COMPANY

## Coverdell Education Savings Custodial Account Disclosure Statement

### REQUIREMENTS OF A COVERDELL ESA

**A. CASH CONTRIBUTIONS** – A Coverdell ESA contribution must be in cash.

**B. MAXIMUM CONTRIBUTION** – The total amount that may be contributed to any and all Coverdell ESAs on behalf of a Designated Beneficiary is \$2,000 per year, excluding rollover and transfer contributions.

Contributions may not be made to a Coverdell ESA after the Designated Beneficiary's 18<sup>th</sup> birthday, except in the case of a special needs beneficiary.

The Coverdell ESA contribution that may be made by a Depositor is further limited if the Depositor's modified adjusted gross income (MAGI) exceeds \$190,000 and he or she is a married individual filing jointly (\$95,000 for single taxpayers). Married individuals filing jointly with MAGI exceeding \$220,000 may not fund a Coverdell ESA. Single individuals with MAGI exceeding \$110,000 may not fund a Coverdell ESA. The MAGI limits apply only to Depositors that are individuals.

If the Depositor is married filing jointly with MAGI between \$190,000 and \$220,000, the maximum Coverdell ESA contribution is determined as follows: (1) subtract the Depositor's MAGI from \$220,000, (2) divide the difference by \$30,000, and (3) multiply the result in step (2) by \$2,000. For example if the Depositor's MAGI is \$205,000, the maximum Coverdell ESA contribution that may be made by such Depositor is \$1,000. This amount is determined as follows: [(\$220,000 minus \$205,000) divided by \$30,000] multiplied by \$2,000.

The Coverdell ESA contribution that may be made by a Depositor is not limited by contributions made by the Depositor to Traditional or Roth IRAs. In addition there is no earned income requirement to be eligible to contribute to a Coverdell ESA. There is no requirement that the Depositor be related to the Designated Beneficiary in order to make contributions. In addition, the Designated Beneficiary may contribute to his or her own Coverdell ESA.

**C. ELIGIBLE CUSTODIANS** – The Custodian of the Coverdell ESA must be a bank, savings and loan association, credit union, or person approved by the Secretary of the Treasury.

**D. COMMINGLING ASSETS** – The assets of the Coverdell ESA cannot be commingled with other property except in a common trust fund or common investment fund.

**E. LIFE INSURANCE** – No portion of the Coverdell ESA may be invested in life insurance contracts.

**F. COLLECTIBLES** – The assets of the Coverdell ESA may not be invested in collectibles (within the meaning of Internal Revenue Code (IRC) Sec. 408(m)). A collectible is defined as any work of art, rug or antique, metal or gem, stamp or coin, alcoholic beverage, or other tangible personal property specified by the Internal Revenue Service (IRS). However, specially minted United States gold and silver bullion coins and certain state-issued coins are permissible investments. Beginning January 1, 1998, platinum coins and certain gold, silver, platinum or palladium bullion (as described in IRC Sec. 408(m)(3)) are also permitted as Coverdell ESA investments.

**G. REQUIRED DISTRIBUTIONS** – Except in the case of a special needs beneficiary, the assets of the Coverdell ESA are required to be distributed to the Designated Beneficiary within 30 days of the Designated Beneficiary's attainment of the age 30. The Designated Beneficiary will be subject to both income tax and an additional 10 percent tax on the portion of the distribution that represents earnings, if the Designated Beneficiary does not have any qualified education expenses in that year.

Any balance remaining in the Coverdell ESA upon the death of the Designated Beneficiary shall be distributed within 30 days of the Designated Beneficiary's death, unless a death beneficiary is named and the death beneficiary is a qualified Family Member under age 30. If the death beneficiary is a qualified Family Member under age 30, that individual will become the Designated Beneficiary as of the date of death.

**H. RESPONSIBLE INDIVIDUAL** – The Responsible Individual is generally the parent or guardian of the Designated Beneficiary. However the financial organization may establish a policy that permits someone other than the Designated Beneficiary's parent or legal guardian to serve as the Responsible Individual. Unless otherwise indicated on the Application, the Responsible Individual may change the Designated Beneficiary to another member of the Designated Beneficiary's family. The Responsible Individual shall perform the following duties:

1. receive a copy of the plan agreement and disclosure statement.
2. direct the Custodian regarding the investment of contributions, including the ability to redirect the investment of the initial contribution.
3. direct the Custodian regarding the administration, management, and distribution of the account, unless the plan agreement indicates otherwise.
4. name a successor responsible individual if the need arises.
5. notify the Custodian of any address change for the individuals identified on the plan agreement.
6. remove excess contributions made to the Coverdell ESA.

### INCOME TAX CONSEQUENCES OF ESTABLISHING A COVERDELL ESA

**A. CONTRIBUTIONS NOT DEDUCTED** – No deduction is allowed for Coverdell ESA contributions, including transfer and rollover contributions.

**B. TAX DEFERRED EARNINGS** – The investment earnings of the Coverdell ESA are not subject to federal income tax as they accumulate in the Coverdell ESA. In addition, distributions of the Coverdell ESA earnings will be free from federal income tax if the distributions are taken to pay for qualified education expenses as discussed below.

**C. TAXATION OF DISTRIBUTIONS** – The taxation of distributions from the Coverdell ESA depends on whether or not the distributions are used for qualified education expenses.

**1. Qualified Education Expenses** – The Designated Beneficiary may take tax-free distributions from a Coverdell ESA to pay for elementary, secondary or post-secondary education expenses at an eligible educational institution. Such expenses include tuition, fees, books, supplies, special needs services, room and board, uniforms, transportation,

academic tutoring and supplementary items or services (including extended day programs). Also qualifying are expenses for the purchase of computer technology or equipment, Internet access and related services, if such technology, equipment or services are to be used by the Designated Beneficiary or the Designated Beneficiary's family during any of the years the Designated Beneficiary is in school. Qualified expenses may also include amounts contributed to a qualified tuition program.

**2. Non-qualifying Distributions.** If a Designated Beneficiary withdraws amounts from a Coverdell ESA which exceed the qualified education expenses for the same year, or the distributions are not used for the qualified education expenses, a portion of the distributions will be taxable. The amount in excess of the qualified education expenses is taxable pro rata, based on earnings and the basis in the account.

In most cases of a non-qualified distribution, the taxable portion of the Coverdell ESA distribution is also subject to an additional 10 percent tax. There are several exceptions to the 10 percent tax including distributions made payable:

- a. to a designated death beneficiary of the Coverdell ESA or to the estate of the Designated Beneficiary following the death of the Designated Beneficiary;
- b. to the Designated Beneficiary if the Designated Beneficiary is disabled;
- c. to the Designated Beneficiary if the Designated Beneficiary received a qualified scholarship, an educational assistance allowance or an excludable payment exception, but only to the extent the distribution is not more than the amount of the scholarship, allowance or exclusion payment, and
- d. to the Designated Beneficiary as a removal of excess along with the net income attributable.

**3. Hope or Lifetime Learning Credits** – A Designated Beneficiary may claim the Hope Credit or the Lifetime Learning Credit on his or her federal income tax return in the same taxable year that a tax-free distribution from a Coverdell ESA is claimed, as long as the distribution(s) does not cover the same expenses claimed for the Hope Credit or Lifetime Learning Credit.

**D. ROLLOVERS** – Coverdell ESA amounts may be rolled over to another Coverdell ESA of the same Designated Beneficiary or that of a qualified family member, provided that all of the applicable rollover rules are followed. Rollover is a term used to describe a tax-free movement of cash to a Coverdell ESA from another Coverdell ESA. The rollover rules are generally summarized below. These transactions are often complex. If you have any questions regarding a rollover, please see a competent tax advisor.

**1. ESA to ESA Rollovers.** Funds distributed from a Coverdell ESA may be rolled over to another Coverdell ESA of the same Designated Beneficiary or that of a qualifying family member if the requirements of IRC Sec. 530(d)(5) are met. A proper Coverdell ESA to Coverdell ESA rollover is completed if all or part of a distribution is rolled over no later than 60 days after the distribution is received. The Responsible Individual may not have completed another rollover from the distributing Coverdell ESA during the 12 months preceding the date the distribution was received. Further the Responsible Individual may roll the same dollars or assets only once every 12 months.

**2. Qualified Family Member** – A Coverdell ESA may be rolled to another Coverdell ESA of the same Designated Beneficiary or to a Coverdell ESA maintained for the benefit of a qualified family member of the Designated Beneficiary, who is under the age of 30. The age 30 limitation does not apply to qualified family members who are special needs beneficiaries. Qualified family members of the Designated Beneficiary include the Designated Beneficiary's spouse, child, grandchild, sister, brother, parent, niece or nephew, son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law or sister-in-law and the spouse of any such individual. A first cousin of the Designated Beneficiary, but not his or her spouse is also considered a qualified family member.

**E. CARRYBACK CONTRIBUTIONS** – A contribution is deemed to have been made on the last day of the preceding taxable year if it is made by the deadline for filing the Depositor's income tax return (not including extensions), and the Depositor designates that contribution as a contribution for the preceding taxable year. For example, if the Depositor is a

calendar year filer and makes a Coverdell ESA contribution on or before April 15, the contribution is considered to have been made for the previous tax year if the Depositor designates it as such.

#### LIMITATIONS AND RESTRICTIONS

**A. PROHIBITED TRANSACTIONS** – If the Responsible Individual engages in a prohibited transaction with the Coverdell ESA as described in the IRC, Sec. 4975, the Coverdell ESA will lose its tax-exempt status and the Designated Beneficiary must generally include the value of the earnings in his or her account in his or her gross income for the year.

**B. PLEDGING** – If the Responsible Individual pledges any portion of the Coverdell ESA as collateral for a loan, the amount so pledged will be treated as a distribution and may be included in the Designated Beneficiary's gross income for that year to the extent that it represents earnings.

**C. ESTATE AND GIFT TAX** – Transfers of Coverdell ESA assets to a death designated beneficiary made during the Designated Beneficiary's life and at his or her request or because of the Designated Beneficiary's failure to instruct otherwise, may be subject to federal gift tax under IRC Sec. 2501 if made after October 26, 1986.

**D. INCOME TAX TREATMENT** – Any withdrawal from the Coverdell ESA is not subject to federal income tax withholding.

#### FEDERAL TAX PENALTIES

**A. EXCESS CONTRIBUTION PENALTY** – An excise tax of 6 percent is imposed upon any excess contribution made to a Coverdell ESA. This tax will apply to each year in which an excess remains in the Coverdell ESA. An excess contribution is

any contribution amount which exceeds the contribution limit, excluding rollover and direct transfer amounts. The contribution limit is \$2,000 per Designated Beneficiary per year. The contribution limit may be further limited by the Depositor's MAGI as discussed previously. The excess contribution should be removed by the Responsible Individual and made payable to the Designated Beneficiary.

**B. PENALTY REPORTING** – The Designated Beneficiary must file form 5329 with the Internal Revenue Service to report and remit any penalties for excise taxes.

#### OTHER

**A. IRS PLAN APPROVAL** – The agreement used to establish this Coverdell ESA has been approved by the IRS. The IRS approval is determination only as to form. It is not an endorsement of the plan in operation or of the investments offered.

**B. ADDITIONAL INFORMATION** – You may obtain further information on Coverdell ESAs from your District Office of the IRS. In particular, you may wish to obtain IRS Publication 970, *Tax Benefits for Higher Education*, by calling 1-800-TAX-FORM, or by visiting [www.irs.gov](http://www.irs.gov) on the Internet.

**C. IMPORTANT INFORMATION ABOUT PROCEDURES FOR OPENING A NEW ACCOUNT** – To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial organization to obtain, verify and record information that identifies each person who opens an account. What this means for you: When you open an account, you are required to provide your name, residential address, date of birth and identification number. We may require other information that will allow us to identify you.