



Coverdell Education Savings Account Information

INVESTING FOR FUTURE EDUCATION EXPENSES

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INTRODUCTION

Taking the time to plan for your child's or grandchild's education expenses could be one of the most important steps you take in securing his or her future. The Coverdell Education Savings Account ("CESA") offers you the opportunity to invest for future education expenses while putting your assets to work on a tax-sheltered basis.

By choosing a Westcore CESA account you gain access to the entire well-rounded family of Westcore Funds. With funds ranging from stocks to bonds, domestic to international, and large-company to small-company stocks, the Westcore Funds offer a broad range of investment objectives allowing you to select investments suited to your particular goals.

WHAT'S IN THIS BOOKLET?

In this booklet you will find detailed information about Coverdell Education Savings Accounts. The instructions and forms you will need to open a CESA or to transfer an existing CESA to a Westcore CESA are included in the investor kit. If after reading the enclosed material you still have questions regarding Westcore CESA Accounts, please call a Westcore Investor Service Representative at 800.392.CORE (2673).

WHY ESTABLISH A CESA FOR EDUCATION SAVINGS?

CESA Accounts were specifically created to help individuals and families save for education expenses. They enable you to accumulate savings faster than a conventional investment account because the assets can grow tax-deferred. Additionally, distributions are ultimately free from federal income tax if used for qualified education expenses (as described on page 10).

Saving for future education expenses is often something we put off as we face more immediate financial responsibilities. However, as easy as it is to put off, it's important to remember that setting aside even a little bit now can really add up over time. To make getting started less burdensome, Westcore offers our convenient automatic investment plan option, which allows you to make contributions of as little as \$25 per month.

You've already invested your time by requesting or downloading this information, so take the next step and establish a Westcore Coverdell Education Savings Account today!

WHAT FEATURES DOES A WESTCORE CESA OFFER?

Automatic Reinvestment

All dividends and capital gain distributions in your Westcore Coverdell Education Savings Account are automatically reinvested in fund shares so they continue to work for you.

Westcore Automatic Investment Plan

You can build your Education Savings Account automatically by using the Westcore Automatic Investment Plan. This convenient plan lets you purchase Westcore shares directly out of your bank checking or savings account on a regular basis.

Communications About Your Account

You will receive a quarterly statement that details the asset value of each mutual fund investment in your Education Savings Account, as well as your contributions and any rollover deposits made by you during the year. In addition, we will provide you with IRS Forms 5498 and 1099-R, as needed, to show contributions and any withdrawals you made during the year and any other reports required by the Internal Revenue Service.

INTRODUCTION

WHAT INVESTMENT OPTIONS ARE AVAILABLE IN A WESTCORE CESA?

A Westcore CESA offers you the opportunity to select investments for education savings that are suited to your particular needs. The following table lists each of the Funds available to you in a Westcore CESA. For more detailed information regarding any of these Funds, please read the prospectus, visit www.westcore.com or contact a Westcore Investor Service Representative at 800.392.CORE (2673).

Fund Name	Style
Value Equity Funds Westcore Mid-Cap Value Dividend Fund Westcore Mid-Cap Value Dividend Fund II Westcore Smid-Cap Value Dividend Fund Westcore Small-Cap Value Dividend Fund	Mid-Cap Value Mid-Cap Value Smid-Cap Value Small-Cap Value
Growth Equity Funds Westcore Small-Cap Growth Fund Westcore Small-Cap Growth Fund II	Small-Cap Growth Small-Cap Growth
Quantitative Equity Funds Westcore Global Large-Cap Dividend Fund Westcore Large-Cap Dividend Fund Westcore Micro-Cap Opportunity Fund	World Stock Large Cap Value Micro-Cap Core
International Equity Fund Westcore International Small-Cap Fund	International Small-Cap
Fixed Income Funds Westcore Flexible Income Fund Westcore Plus Bond Fund	High Yield Bond Intermediate-Term Bond

Mutual fund investing involves risk, including potential loss of principal.

HOW DO I OPEN AN EDUCATION SAVINGS ACCOUNT?

Opening an account at Westcore is easy and convenient.

- 1) Review the information in this booklet and the prospectus for the funds in which you are interested in investing.
- 2) Complete and sign the Westcore Coverdell Education Savings Account Application. Be sure to indicate the Westcore fund(s) in which you wish to invest.
- 3) Mail us your completed application along with your contribution check made payable to Westcore Funds. Please use the postage-paid envelope provided in your Westcore Investor Kit or, if you wish to use your own envelope, please mail it to the address located at the bottom of the last page of your Westcore account application.
- 4) If you are transferring assets from another Education Savings Account, please complete the Coverdell Education Savings Account Transfer of Assets Form and enclose it with your application.

WHAT FEES ARE ASSOCIATED WITH A WESTCORE CESA ACCOUNT?

Annual Maintenance Fee:

- The Custodian charges an annual maintenance fee of \$10 per account for maintaining a CESA. This fee covers the special costs of maintaining CESA accounts, including tax reporting and administration.

When your Westcore CESA has a balance totaling over \$10,000, you automatically qualify for a Westcore No-Fee CESA and annual CESA maintenance fees will be waived. You meet the requirements immediately when you transfer a balance of \$10,000 or more from another custodian or when your account builds to a balance above \$10,000 from rollover deposits or yearly contributions.

*Multiple CESAs with balances totaling over \$10,000 must have the same social security number to qualify.

General Fee Policies:

- Fees may be paid by you directly, or they may be deducted from your CESA.
- Fees may be changed upon 30 days written notice to you.
- The full annual maintenance fee will be charged for any calendar year during which you have a CESA with us. This fee is not prorated for periods of less than one full year.

OTHER POINTS TO NOTE ABOUT CESAS

Education Savings Account Disclosure Statement in this booklet provides general information about the rules and features of Education Savings Accounts. However, the Westcore Account Application and the Coverdell Education Savings Account Custodial Agreement are the primary documents governing a Westcore Education Savings Account, and these shall govern in the case of any difference with the Disclosure Statement. Also, please note the information this booklet does not address the tax treatment of Education Savings Accounts under state laws, which may vary. Therefore, you should consult your own tax advisor or the IRS if you have any questions about Education Savings Accounts, or about latest developments or state tax treatment of Education Savings Accounts.

Information for Donors:

If you are a Donor other than a Student or Parent, read this information carefully. As a Donor, you must complete and sign the Westcore Coverdell Education Savings Account Application, designate the Student for whom the Education Savings Account is to be maintained, and complete the other required sections of the Application—including the initial investment elections and initial Designation of Beneficiary—and submit the signed form to the Custodian, along with your contribution. Once you submit the Account Application with the contribution, you will have no further control over the account or the amount contributed (unless you revoke the account). The Student (or Parent) will control investment choices and can withdraw amounts or change the beneficiary designation at any time without your consent. No amounts will revert to you.

CESA CUSTODIAL ACCOUNT AGREEMENT

Form 5305-EA under section 530 of the Internal Revenue Code.

The depositor whose name appears on the application is establishing a Coverdell Education Savings Account under section 530 for the benefit of the designated beneficiary whose name appears on the application exclusively to pay for the qualified elementary, secondary, and higher education expenses, within the meaning of section 530(b)(2), of such designated beneficiary.

The depositor has assigned the custodial account the sum indicated on the application.

The depositor and the custodian make the following 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 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 custodial account funds may be invested in life insurance contracts, nor may the assets of the custodial account be commingled with other property except in a common trust fund or 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, that 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 investment of the amount listed on the application assigned to the custodial account (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 custodial account. 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 account.

ARTICLE V

The "responsible individual" named by the depositor shall be a parent or guardian of the designated beneficiary. The custodial account 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 application, 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

(See the application and section 10.06 of this agreement for information regarding the responsible individual's ability to change the designated beneficiary named by the depositor.)

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 inconsistent 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 custodian whose signatures appear on the application.

ARTICLE X

10.01 *Notices and Change of Address* – Any required notice regarding this Coverdell ESA will be considered effective when the custodian sends it to the intended recipient at the last address that the custodian has in its records. Any notice to be given to the custodian will be considered effective when the custodian actually receives it. The responsible individual must notify the custodian of any change of address.

10.02 *Representations and Responsibilities* – The depositor and the responsible individual represent and warrant to the custodian that any information the depositor and responsible individual have given or will give the custodian with respect to this agreement is complete and accurate. Further, the depositor and the responsible individual agree that any directions they give the custodian, or action they take will be proper under this agreement, and that the custodian is entitled to rely upon any such information or directions. If the custodian fails to receive directions regarding any transaction, receives ambiguous directions regarding any transaction, or if the custodian, in good faith, believes that any transaction requested is in dispute, the custodian reserves the right to take no action until further clarification acceptable to the custodian is received from the responsible individual or the appropriate government or judicial authority. The custodian will not be liable for acting upon any instructions given by the responsible individual named on the application prior to the time the custodian receives appropriate written notice that the designated beneficiary has met the requirements for assuming control of the Coverdell ESA, or that a new responsible individual has been appointed. The custodian will not be responsible for losses of any kind that may result from the depositor's and responsible individual's directions to it or the depositor's and responsible individual's actions, or failures to act. The depositor and responsible individual agree to reimburse the custodian for any loss the custodian may incur as a result of such directions, actions or failures to act. The custodian will not be responsible for any penalties, taxes, judgments, or expenses incurred in connection with this Coverdell ESA. The custodian has no duty to determine whether the contributions or distributions comply with the Code, regulations, rulings, or this agreement.

The responsible individual will have 60 days after receiving any documents, statements, or other information from the custodian to notify the custodian in writing of any errors or inaccuracies reflected in these documents, statements, or other information. If the custodian is not notified within 60 days, the documents, statements, or other information will be deemed correct and accurate, and the custodian will have no further liability or obligation for such documents, statements, other information, or the transactions described therein.

By performing services under this agreement the custodian is acting as the responsible individual's agent. The depositor, responsible individual, and designated beneficiary acknowledge and agree that nothing in this agreement will be construed as conferring fiduciary status upon the custodian. The custodian will not be required to perform any additional services unless specifically agreed to under the terms and conditions of this agreement, or as required under the Code and the regulations promulgated thereunder with respect to Coverdell ESAs. The designated beneficiary, depositor, and responsible individual agree to indemnify and hold the custodian harmless for any and all claims, actions, proceedings, damages, judgments, liabilities, costs, and expenses, including attorney's fees arising from or in connection with this agreement.

Notwithstanding anything in this agreement to the contrary, the custodian may establish a policy permitting someone other than the designated beneficiary's parent or legal guardian to serve as responsible individual, provided the individual is not prohibited by law from serving in that capacity and fulfilling his or her obligations under this agreement.

To the extent written instructions or notices are required under this agreement, the custodian may accept or provide such information in any other form permitted by the Code or applicable regulations including, but not limited to, electronic communication.

10.03 *Disclosure of Account Information* – The custodian may use agents and/or subcontractors to assist in administering this Coverdell ESA. The custodian may release nonpublic personal information regarding this Coverdell ESA to such providers as necessary to provide the products and services made available under this agreement, and to evaluate its business operations and analyze potential product, service, or process improvements.

10.04 *Service Fees* – The custodian has the right to charge an annual service fee or other designated fees (e.g., a transfer, rollover, or termination fee) for maintaining this Coverdell ESA. In addition, the custodian has the right to be reimbursed for all reasonable expenses, including legal expenses, incurred in connection with the administration of this Coverdell ESA. The custodian may charge the depositor or responsible individual separately for any fees or expenses, or may deduct the amount of the fees or expenses from the assets in this Coverdell ESA at the custodian's discretion. The custodian reserves the right to charge any additional fee after giving the responsible individual 30 days' notice. Fees such as subtransfer agent fees or commissions may be paid to the custodian by third parties for assistance in performing certain transactions with respect to this Coverdell ESA.

Any brokerage commissions attributable to the assets in the Coverdell ESA will be charged to the Coverdell ESA. The responsible individual, depositor or designated beneficiary cannot reimburse the Coverdell ESA for those commissions.

10.05 Investment of Amounts in the Coverdell ESA – The responsible individual has exclusive responsibility for and control over the investment of the assets of this Coverdell ESA. All transactions will be subject to any and all restrictions or limitations, direct or indirect, that are imposed by the custodian’s charter, articles of incorporation, or bylaws; any and all applicable federal and state laws and regulations; the rules, regulations, customs, and usages of any exchange, market, or clearinghouse where the transaction is executed; the custodian’s policies and practices; and this agreement. The custodian will have no discretion to direct any investment in this Coverdell ESA. The custodian assumes no responsibility for rendering investment advice with respect to this Coverdell ESA, nor will the custodian offer any opinion or judgment to the responsible individual or depositor on matters concerning the value or suitability of any investment or proposed investment for this Coverdell ESA. In the absence of instructions from the responsible individual or depositor, or if the instructions are not in a form acceptable to the custodian, the custodian will have the right to hold any uninvested amounts in cash, and the custodian will have no responsibility to invest uninvested cash unless and until directed by the responsible individual. The custodian will not exercise the voting rights and other shareholder rights with respect to investments in this Coverdell ESA unless timely, written directions are provided and are acceptable to the custodian.

The responsible individual will select the investment for the Coverdell ESA assets from those investments that the custodian is authorized by its charter, articles of incorporation, or bylaws to offer and does in fact offer for Coverdell ESAs (e.g., term share accounts, passbook accounts, certificates of deposit, money market accounts).

10.06 Beneficiaries – Unless indicated otherwise on the application, 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 agreement and the responsible individual chooses to do so, the responsible individual must designate a member of the family (as defined in IRC Section 529(e)(2)) of the existing designated beneficiary. This designation can only be made on a form prescribed by the custodian.

The depositor or responsible individual may designate one or more persons or entities as death beneficiaries of this Coverdell ESA. This designation can only be made on a form provided by or acceptable to the custodian, and it will only be effective when it is filed with the custodian during the lifetime of the designated beneficiary. Each beneficiary designation filed with the custodian will cancel all previous designations. The consent of a death beneficiary will not be required in order to revoke a death beneficiary designation. If both primary and contingent death beneficiaries have been named, and no primary death beneficiary survives the designated beneficiary, the contingent death beneficiaries will acquire the designated share of this Coverdell ESA. If a death beneficiary is not designated with respect to this Coverdell ESA, or if all of the primary and contingent death beneficiaries predecease the designated beneficiary, the designated beneficiary’s estate will be the death beneficiary.

If the designated beneficiary dies before receiving all of the amounts in this Coverdell ESA, the custodian will have no obligation to pay to the death beneficiaries until such time the custodian is notified of the designated beneficiary’s death by receiving a valid death certificate. Any balance remaining in the Coverdell ESA upon the death of the designated beneficiary will be distributed within 30 days of the designated beneficiary’s death, unless a qualified family member under age 30 is named as a death beneficiary. If the death beneficiary is a qualified family member under age 30, that individual will become the designated beneficiary as of the original designated beneficiary’s date of death. Qualified family members are defined in IRC Section 529(e)(2).

The custodian may, for any reason (e.g., due to limitations of its charter or bylaws), require a qualified family member who becomes the designated beneficiary to take a total distribution of the Coverdell ESA by December 31 of the year following the year of the original designated beneficiary’s death.

10.07 Termination of Agreement, Resignation, or Removal of Custodian – Either the custodian or the responsible individual may terminate this agreement at any time by giving written notice to the other. The custodian can resign as custodian at any time effective 30 days after sending written notice of its resignation to the responsible individual. Upon receipt of that notice, the responsible individual must make arrangements to transfer the Coverdell ESA to another financial organization. If the responsible individual does not complete a transfer of the Coverdell ESA within 30 days from the date the custodian sends the notice to the responsible individual, the custodian has the right to transfer the Coverdell ESA assets to a successor Coverdell ESA trustee or custodian that the custodian chooses in its sole discretion, or the custodian may pay the Coverdell ESA balance to the designated beneficiary in a single sum. The custodian will not be liable for any actions or failures to act on the part of any successor trustee or custodian, nor for any tax consequences the designated beneficiary may incur that result from the transfer or distribution of the Coverdell ESA assets pursuant to this section.

If this agreement is terminated, the custodian may charge the Coverdell ESA a reasonable amount of money that it believes is necessary to cover any associated costs, including but not limited to one or more of the following.

- Any fees, expenses, or taxes chargeable against the Coverdell ESA
- Any penalties or surrender charges associated with the early withdrawal of any savings instrument or other investment in the Coverdell ESA

If the custodian is a nonbank custodian required to comply with Regulations section 1.408-2(e) and fails to do so or the custodian is not keeping the records, making the returns or sending the statements as are required by forms or regulations, the IRS may require the custodian to substitute another trustee or custodian.

CESA INFORMATION

The custodian may establish a policy requiring distribution of the entire balance of this Coverdell ESA to the designated beneficiary in cash or property if the balance of this Coverdell ESA drops below the minimum balance required under the applicable investment or policy established.

- 10.08 **Successor Custodian** – If the custodian’s organization changes its name, reorganizes, merges with another organization (or comes under the control of any federal or state agency), or if the entire organization (or any portion that includes this Coverdell ESA) is bought by another organization, that organization (or agency) will automatically become the trustee or custodian of this Coverdell ESA, but only if it is the type of organization authorized to serve as a Coverdell ESA trustee or custodian.
- 10.09 **Amendments** – The custodian has the right to amend this agreement at any time. Any amendment the custodian makes to comply with the Internal Revenue Code and related regulations does not require the consent of either the responsible individual or the depositor. The responsible individual will be deemed to have consented to any other amendment unless, within 30 days from the date the custodian sends the amendment, the responsible individual notifies the custodian in writing that the responsible individual does not consent.
- 10.10 **Withdrawals or Transfers** – All requests for withdrawal or transfer will be in writing on a form provided by or acceptable to the custodian. The method of distribution must be specified in writing or in any other method acceptable to the custodian. The tax identification number of the designated beneficiary or death beneficiary must be provided to the custodian before the custodian is obligated to make a distribution. Withdrawals will be subject to all applicable tax and other laws and regulations, including but not limited to possible early distribution penalty taxes, surrender charges, and withholding requirements.
- 10.11 **Transfers From Other Plans** – The custodian can receive amounts transferred to the Coverdell ESA from the trustee or custodian of another Coverdell ESA.
- 10.12 **Liquidation of Assets** – The custodian has the right to liquidate assets in the Coverdell ESA if necessary to make distributions or to pay fees, expenses, taxes, penalties, or surrender charges properly chargeable against the Coverdell ESA. If the responsible individual fails to direct the custodian as to which assets to liquidate, the custodian will decide, in its complete and sole discretion, and the responsible individual agrees not to hold the custodian liable for any adverse consequences that result from the custodian’s decision.
- 10.13 **Restrictions on the Fund** – Neither the responsible individual, the designated beneficiary (nor anyone acting on behalf of the designated beneficiary), the depositor nor any contributor may sell, transfer or pledge any interest in the Coverdell ESA in any manner whatsoever, except as provided by law or this agreement.

The assets in the Coverdell ESA will not be responsible for the debts, contracts, or torts of the responsible individual, the designated beneficiary, the depositor, or any person entitled to distributions under this agreement.

- 10.14 **What Law Applies** – This agreement is subject to all applicable federal and state laws and regulations. If it is necessary to apply any state law to interpret and administer this agreement, the law of the custodian’s domicile will govern.

If any part of this agreement is held to be illegal or invalid, the remaining parts will not be affected. Neither the responsible individual’s nor the custodian’s failure to enforce at any time or for any period of time any of the provisions of this agreement will be construed as a waiver of such provisions, or the parties’ right thereafter to enforce each and every such provision.

GENERAL INSTRUCTIONS

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

WHAT’S NEW

Military Death Gratuity – Families of soldiers who receive military death benefits may contribute, subject to certain limitations, up to 100 percent of such benefits into an educational savings account. Publication 970, Tax Benefits for Education, explains the rules for rolling over the military death gratuity and lists eligible family members.

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.

CESA INFORMATION

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 a 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 members 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, or 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 and designated beneficiary’s social security numbers 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 contributions, distributions, rollover contributions, 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 relating to: definitions, investment powers, voting rights, exculpatory provisions, amendment and termination, removal of the custodian, custodian’s fees, state law requirements, treatment of excess contributions, and prohibited transactions with the depositor, designated beneficiary, or responsible individual, etc. Attach additional pages as necessary.

Optional Provisions 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.

CESA 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 18th 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: $[(\$220,000 \text{ minus } \$205,000) \text{ divided by } \$30,000] \text{ multiplied by } \$2,000$.

If the depositor is a single tax filer with MAGI between \$95,000 and \$110,000, the maximum Coverdell ESA contribution is determined as follows: (1) subtract the depositor's MAGI from \$110,000, (2) divide the difference by \$15,000, and (3) multiply the result in step (2) by \$2,000. For example, if the depositor's MAGI is \$98,000, the maximum Coverdell ESA contribution that may be made by such depositor is \$1,600. This amount is determined as follows: $[(\$110,000 \text{ minus } \$98,000) \text{ divided by } \$15,000] \text{ multiplied by } \$2,000$.

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 or entity 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 coins, and certain state-issued coins are permissible investments. 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 age 30. The designated beneficiary will be subject to both income tax and an additional 10 percent penalty 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 will 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. Qualified family members include the designated beneficiary's child, grandchild, or stepchild, brother, sister, stepbrother, or stepsister, nephew or niece, parents, stepparents, or grandparents, uncle or aunt, spouses of all the family members listed above, cousin, and the designated beneficiary's spouse.

If a qualified family member becomes the designated beneficiary, the custodian, if it so chooses for any reason (e.g., due to limitations of its charter or bylaws), may require a total distribution of the Coverdell ESA by December 31 of the year following the year of the original designated beneficiary's 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 not change the designated beneficiary. If the depositor has indicated on the application that the responsible individual may change the

designated beneficiary, the responsible individual may change the designated beneficiary to another member of the designated beneficiary's family. The responsible individual will 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. **CONTRIBUTION DEADLINE** – The deadline for making a Coverdell ESA contribution is the depositor's tax return due date (not including extensions). The depositor may designate a contribution as a contribution for the preceding taxable year in a manner acceptable to the custodian. For example, if the depositor is a calendar-year filer and makes a Coverdell ESA contribution on or before the tax filing deadline, the contribution is considered to have been made for the previous tax year if the depositor designates it as such.
- C. **EXCESS CONTRIBUTIONS** – An excess contribution is any amount that is contributed to the Coverdell ESA that exceeds the eligible contribution limit. If the excess is not corrected timely, an additional penalty tax of six percent will be imposed on the excess amount. The procedure for correcting the excess is determined by the timeliness of the correction as identified below.

1. **Removal Before the Deadline.** The responsible individual should remove the excess contribution along with the earnings attributable to the excess, before June 1 of the year following the year for which the excess was made. An excess withdrawn by this deadline is not taxable upon distribution, but the designated beneficiary must include the earnings attributable to the excess in his or her taxable income for the year in which the excess contribution was made. The six percent excess contribution penalty tax will be avoided.
2. **Failure to Remove Before the Deadline.** Excess Coverdell ESA contributions that are not removed before June 1 of the year following the year for which the excess was made, are treated as contributions for the next calendar year. If, however, additional contributions are made for that year and the total amount results in an excess, the excess amount will be subject to a six percent penalty tax if not removed timely.

If additional contributions have been made for the next year, the amount of the excess equals the excess contribution for the current year, plus the excess contributions remaining from the preceding year, reduced by any distributions made during the current year.

The designated beneficiary must file IRS form 5329 to report and remit any additional penalty taxes to the IRS.

- D. **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.
- E. **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 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. **Nonqualifying Distributions.** If a designated beneficiary withdraws amounts from a Coverdell ESA that exceed the qualified education expenses for the same year, or the distributions are not used for 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 the earnings and the basis in the account.

In most cases of a nonqualified distribution, the taxable portion of a Coverdell ESA distribution is also subject to an additional 10 percent penalty tax. There are several exceptions to the 10 percent penalty 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 excludable payment, and
- d. to the designated beneficiary as a removal of excess along with the net income attributable.

3. **American Opportunity or Lifetime Learning Credits.** A designated beneficiary may claim the American Opportunity Credit (formerly the Hope Credit) or 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 American Opportunity or Lifetime Learning Credit.

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

G. **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. For questions regarding a rollover, please see a competent tax advisor.

1. **Coverdell ESA to Coverdell ESA Rollovers.** Assets 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 the distribution is rolled over not 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 child, grandchild, or stepchild, brother, sister, stepbrother, or stepsister, nephew or niece, parents, stepparents, or grandparents, uncle or aunt, spouses of all the family members listed above, cousin, and designated beneficiary's spouse.
3. **Rollover of Military Death Benefits.** If a designated beneficiary receives or has received a military death gratuity or a payment from the Servicemembers' Group Life Insurance (SGLI) program, the designated beneficiary may be able to roll over the proceeds to the Coverdell ESA. The rollover contribution amount is limited to the sum of the death benefits or SGLI payment received, less any such amount that was rolled over to a Roth IRA. Proceeds must be rolled over within one year of receipt of the gratuity or SGLI payment for deaths occurring on or after June 17, 2008. Any amount that is rolled over under this provision is considered nontaxable basis in the Coverdell ESA.

LIMITATIONS AND RESTRICTIONS

- A. **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.
- B. **PROHIBITED TRANSACTIONS** – If the responsible individual engages in a prohibited transaction with the Coverdell ESA as described in IRC Sec. 4975, the Coverdell ESA will lose its tax-deferred status and the designated beneficiary must include the value of the earnings in his or her account in his or her gross income for the year.
- C. **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.

OTHER

- A. **IRS PLAN APPROVAL** – The agreement used to establish this Coverdell ESA has been approved by the IRS. The IRS approval is a determination only as to form. It is not an endorsement of the plan in operation or of the investments offered.
- B. **ADDITIONAL INFORMATION** – Additional information on Coverdell ESAs may be obtained from the District Office of the IRS. In particular IRS Publication 970, Tax Benefits For Higher Education, may be obtained by calling 1-800-TAX-FORM, or by visiting 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 organizations to obtain, verify, and record information that identifies each person who opens an account. Therefore, when the depositor opens an account, he or she is required to provide his or her name, residential address, date of birth, and identification number. The custodian may require other information that will allow them to identify the depositor.
- D. **FINANCIAL DISCLOSURE** – The value of your IRA will be solely dependent upon the performance of any investment chosen by you to fund your IRA. Therefore, no projection of the growth of your IRA can reasonably be shown or guaranteed. The method for computing and allocating annual earnings (interest, dividends, etc.) on your investments will vary with the nature of the investment chosen. Please refer to the prospectus of the investment(s) of your choice for the method(s) used for computing and allocating annual earnings.

You may be charged an annual service fee or other fees in connection with your IRA. If we do not charge these fees now, we may do so in the future after giving you notice. If you do not pay these fees separately, they may be paid from the assets of your IRA. There may be additional fees or charges associated with your IRA, to find out what fees apply, please refer to the prospectus, which will describe the terms of the investment you choose.



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