

*Application Booklet*

# Coverdell Education Savings Account

Equity Trust Company

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<b>FACTS</b>	<b>WHAT DOES EQUITY TRUST COMPANY DO WITH YOUR PERSONAL INFORMATION?</b>	
<b>Why?</b>	Financial companies choose how they share your personal information. Federal law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share, and protect your personal information. Please read this notice carefully to understand what we do.	
<b>What?</b>	<p>The types of personal information we collect and share depend on the product or service you have with us. This information can include:</p> <ul style="list-style-type: none"> <li>▪ Social Security number and account transactions</li> <li>▪ Account balance and transaction history</li> <li>▪ Assets and investment experience</li> </ul> <p>When you are <i>no longer</i> our customer, we continue to share your information as described in this notice.</p>	
<b>How?</b>	All financial companies need to share customers personal information to run their everyday business. In the section below, we list the reasons financial companies can share their customers personal information; the reasons Equity Trust Company chooses to share; and whether you can limit this sharing.	
<b>Reasons we can share your personal information</b>	<b>Does Equity Trust Company share?</b>	<b>Can you limit this sharing?</b>
<b>For our everyday business purposes—</b> such as to process your transactions, maintain your account(s), respond to court orders and legal investigations, or report to credit bureaus	<b>Yes</b>	<b>No</b>
<b>For our marketing purposes—</b> to offer our products and services to you	<b>Yes</b>	<b>No</b>
<b>For joint marketing with other financial companies</b>	<b>No</b>	<b>We don't share</b>
<b>For our affiliates' everyday business purposes—</b> information about your transactions and experiences	<b>Yes</b>	<b>No</b>
<b>For our affiliates' everyday business purposes—</b> information about your creditworthiness	<b>No</b>	<b>We don't share</b>
<b>For non-affiliates to market to you</b>	<b>No</b>	<b>We don't share</b>
<b>Questions?</b>	Call 800-209-9010 or go to <a href="http://www.equityinstitutional.com">www.equityinstitutional.com</a>	

Who we are	
<b>Who is providing this notice?</b>	Equity Trust Company
What we do	
<b>How does Equity Trust Company protect my personal information?</b>	To protect your personal information from unauthorized access and use, we use security measures that comply with federal law. These measures include computer safeguards and secured files and buildings.
<b>How does Equity Trust Company collect my personal information?</b>	<p>We collect your personal information, for example, when you:</p> <ul style="list-style-type: none"> <li>▪ Open an account</li> <li>▪ Make deposits or withdrawals from your account</li> <li>▪ Provide account information or give us your contact information</li> <li>▪ Direct us to buy or sell securities</li> </ul> <p>We also collect your personal information from others, such as credit bureaus, affiliates, or other companies.</p>
<b>Why can't I limit all sharing?</b>	<p>Federal law gives you the right to limit only:</p> <ul style="list-style-type: none"> <li>▪ sharing for affiliates' everyday business purposes—information about your creditworthiness</li> <li>▪ affiliates from using your information to market to you</li> <li>▪ sharing for non-affiliates to market to you</li> </ul> <p>State laws and individual companies may give you additional rights to limit sharing.</p>
Definitions	
<b>Affiliates</b>	<p>Companies related by common ownership or control. They can be financial and nonfinancial companies.</p> <ul style="list-style-type: none"> <li>▪ <i>Our affiliates include financial companies, such as ETC Brokerage Services LLC, Equity Advisor Solutions LLC, and Equity Administrative Services, Inc.; non-financial companies, such as Retirement Education Group, Inc. d/b/a Equity University.</i></li> </ul>
<b>Non-Affiliates</b>	<p>Companies not related by common ownership or control. They can be financial and nonfinancial companies.</p> <ul style="list-style-type: none"> <li>▪ <i>Equity Trust Company does not share with non-affiliates so they can market to you.</i></li> </ul>
<b>Joint marketing</b>	<p>A formal agreement between non-affiliated financial companies that together market financial products or services to you.</p> <ul style="list-style-type: none"> <li>▪ <i>Equity Trust Company does not jointly market.</i></li> </ul>

Type of Account:

New  Rollover  Transfer

## 1 Designated Beneficiary's Information

BENEFICIARY'S LEGAL NAME		SOCIAL SECURITY NUMBER	
STREET ADDRESS (REQUIRED - NO PO BOX)			
CITY		STATE	ZIP CODE
DATE OF BIRTH		DAYTIME PHONE NUMBER	

## 2 Grantor's Information

NAME (Last, First, Middle)		SOCIAL SECURITY NUMBER		DATE OF BIRTH (MM/DD/YYYY)	
ADDRESS (REQUIRED)					
CITY		STATE	ZIP CODE		
MAILING ADDRESS - IF DIFFERENT (MAY USE PO BOX)					
CITY		STATE	ZIP CODE		
DAYTIME PHONE NUMBER			RELATIONSHIP TO DESIGNATED BENEFICIARY		

## 3 Responsible Individual Information (A Responsible Individual must be designated below and must be a parent or guardian of the Designated Beneficiary)

NAME		SOCIAL SECURITY NUMBER		DATE OF BIRTH	
ADDRESS (REQUIRED)					
CITY		STATE	ZIP CODE		
MAILING ADDRESS - IF DIFFERENT (MAY USE PO BOX)					
CITY		STATE	ZIP CODE		
DAYTIME PHONE NUMBER			RELATIONSHIP TO DESIGNATED BENEFICIARY		

#### 4 Death Beneficiary Information (In the event of the Designated Beneficiary's death)

NAME		SOCIAL SECURITY NUMBER	DATE OF BIRTH (MM/DD/YYYY)
ADDRESS (REQUIRED)			
CITY		STATE	ZIP CODE
PERCENTAGE OF ACCOUNT	RELATIONSHIP TO DESIGNATED BENEFICIARY	CHOOSE ONE: <input type="checkbox"/> Primary <input type="checkbox"/> Contingent	

NAME		SOCIAL SECURITY NUMBER	DATE OF BIRTH (MM/DD/YYYY)
ADDRESS (REQUIRED)			
CITY		STATE	ZIP CODE
PERCENTAGE OF ACCOUNT	RELATIONSHIP TO DESIGNATED BENEFICIARY	CHOOSE ONE: <input type="checkbox"/> Primary <input type="checkbox"/> Contingent	

#### 5 IMPORTANT: Please read before signing.

*The signature of the Responsible Individual must be obtained if someone other than the Grantor will be the Responsible Individual.*

I understand the eligibility requirements for the type of Education Savings Account deposit I am making and I state that I do qualify to make the deposit. I have received a copy of the Instructions, Application, the 5305-E Coverdell Education Savings Trust Account, Disclosure Statement and Schedule of Trustee Fees. I understand that the terms and conditions which apply to this Coverdell Education Savings Account are contained in this Application and the Trust Agreement. I agree to be bound by those terms and conditions.

I assume complete responsibility for: 1) Determining if I am eligible to contribute to Coverdell Education Savings Account each year I make a contribution; 2) Ensuring that all contributions I make are within the limits set forth by the tax laws; 3) Certifying that I am qualified to assume the responsibilities of the Responsible Individual as set forth in this Agreement, if I am designated on this Application as the Responsible Individual; and 4) Managing and administering the account and authorizing transactions involving contributions (including rollover contributions) and distributions, if I am designated on this Application as the Responsible Individual.

**SIGN HERE** (Signatures must be present on all originals, copies, faxes and/or emails. A delay in processing may occur if signature is not present or is illegible.)

GRANTOR	DATE
RESPONSIBLE INDIVIDUAL	DATE
INVESTMENT FIRM	ACCOUNT NUMBER
INVESTMENT REPRESENTATIVE	PHONE NUMBER
ADDRESS	
CITY	STATE      ZIP CODE
EMAIL ADDRESS	
TRUSTEE'S APPROVAL	DATE

**Coverdell Education Savings Trust Account  
Agreement**  
(under section 530 of the Internal Revenue Code)

Do not file  
with the Internal  
Revenue Service

Name of grantor

Check if amendment . . . ▶

Name of designated beneficiary

Address of designated beneficiary

Date of birth of designated beneficiary

Name of responsible individual (generally the parent or guardian of the designated beneficiary)

Address of responsible individual

Name of trustee

Address or principal place of business of trustee

The grantor named above is establishing a Coverdell education savings trust account under section 530 for the benefit of 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.

The grantor has assigned the trust \_\_\_\_\_ dollars (\$ \_\_\_\_\_) in cash.

The grantor and the trustee make the following agreement:

**Article I**

The trustee 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 trust account funds may be invested in life insurance contracts, nor may the assets of the trust 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 grantor shall have the power to direct the trustee regarding the investment of the above-listed amount assigned to the trust (including earnings thereon) in the investment choices offered by the trustee. The responsible individual, however, shall have the power to redirect the trustee regarding the investment of such amounts, as well as the power to direct the trustee regarding the investment of all additional contributions (including earnings thereon) to the trust. In the event that the responsible individual does not direct the trustee regarding the investment of additional contributions (including earnings thereon), the initial investment direction of the grantor also will govern all additional contributions made to the trust account until such time as the responsible individual otherwise directs the trustee. Unless otherwise provided in this agreement, the responsible individual also shall have the power to direct the trustee regarding the administration, management, and distribution of the account.

**Article V**

The "responsible individual" named by the grantor shall be a parent or guardian of the designated beneficiary. The trust 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 below, 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.

**Option** (*This provision is effective only if checked*): The responsible individual shall continue to serve as the responsible individual for the trust after the designated beneficiary attains the age of majority under state law and until such time as all assets have been distributed from the trust and the trust terminates. If the responsible individual becomes incapacitated or dies after the designated beneficiary reaches the age of majority under state law, the responsible individual shall be the designated beneficiary.

### Article VI

The responsible individual  may or  **may not** 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 trustee's procedures.

### Article VII

1. The grantor agrees to provide the trustee with all information necessary to prepare any reports required by section 530(h).
2. The trustee 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 grantor and trustee whose signatures appear below.

### Article X

**10.01 Amendments** - Each grantor who adopts this trust delegates to the trustee the power to amend this trust from time to time in any respect without obtaining the consent or approval of the grantor, responsible individual or designated beneficiary. Any amendments will be provided to the grantor or responsible individual. Each grantor or responsible individual shall be deemed to have consented to any and all such amendments.

In addition, the trustee may amend the fee schedule from time to time with advance notice to the responsible individual (or designated beneficiary).

**10.02 Restrictions** - Neither the grantor or responsible individual (or designated beneficiary) nor the trustee shall have the right to amend or terminate this trust in such a manner as would cause or permit all or part of the trust account to be diverted for purposes other than the exclusive benefit of the designated beneficiary. No grantor, responsible individual or designated beneficiary shall have the right to sell, assign, discount, or pledge as collateral for a loan any asset of this trust.

Notwithstanding anything to the contrary contained in this agreement or in any amendment thereto, no part of the trust other than such part as is required to pay the trustee's compensation, taxes, and administration expenses, shall be used for, or diverted to, purposes other than for the exclusive benefit of the designated beneficiary. The trust account is established for the exclusive benefit of the designated beneficiary.

**10.03 Termination, Resignation and Revocation** – The trustee or responsible individual shall have the right to terminate this trust at any time by giving written notice to the other. The trustee can resign as trustee at any time effective 30 days after giving written notice to the responsible individual. Upon removal of the trustee by the responsible individual, the responsible individual shall appoint a successor trustee or custodian that shall have the same powers and duties as are conferred upon the trustee hereunder and in default thereof, such successor trustee or custodian may be appointed by a court of competent jurisdiction.

In the event of resignation of the trustee, if the responsible individual fails to appoint a successor trustee or custodian and complete the transfer of assets within 30 days of the date the trustee mails such termination notice to the last address on file for the responsible individual or the responsible individual mails such notice to the trustee, the trustee may in its discretion, transfer the assets to a successor trustee or custodian of its choosing or to a successor trustee or custodian as may be appointed by a court of competent jurisdiction, or liquidate and/or distribute the assets, less any amounts withheld for trustee compensation, taxes, and expenses, to the responsible individual. The trustee will not be responsible for any penalties, fines, taxes, or tax consequences that may result from such distribution or transfer.

The grantor or responsible individual shall be permitted to revoke this trust in writing within a period not to exceed seven (7) days after the date that the grantor adopted this trust. In the event of such revocation, the trustee will return the entire account plus any trustee compensation, taxes and expenses as soon as practical.

**10.04 Successor Trustee** - Upon the delivery by the resigning or removed trustee to its successor trustee or custodian of all property of the trust, less such reasonable amount as it shall deem necessary to provide for its compensation and any taxes and expenses or advances chargeable or payable out of the trust, the successor trustee or custodian shall thereupon have the same powers and duties as are conferred upon the trustee.

No successor trustee or custodian shall have any obligation or liability with respect to the acts or omissions of its predecessors. The actual appointment and qualification of a successor trustee or custodian to whom the trust assets may be transferred are conditions which must be fulfilled before the resignation or removal of the trustee shall become effective. The transfer of the trust assets shall be made coincidentally with an accounting by the resigned or removed trustee and such resigned or removed trustee shall endorse, transfer, convey and deliver to the successor trustee or custodian all of the funds, securities or other property then held by it under the trust, together with such records as may be reasonably required in order that the successor trustee or custodian may properly administer the trust.

10.05 **Trustee Rights** - If the trustee receives any claim to assets held in the trust which is adverse to the interest of the designated beneficiary, and the trustee, in its absolute discretion, decides the claim is, or may be, meritorious, the trustee may withhold distribution until the claim is resolved to its trustee shall be entitled to reimbursement of all costs, fees and expenses, including reasonable attorney's fees, directly from the trust assets, without the approval or direction of the responsible individual. If necessary, the trustee may liquidate trust assets in order to be reimbursed. As an alternative, the trustee may deposit all or any portion of the assets in the trust into the court. Deposit with the court shall relieve the trustee of any further obligation with respect to the assets deposited. The trustee has the right to be reimbursed from the funds deposited with the court for legal fees and costs incurred. Such reimbursement may be made directly from the trust assets without approval or direction of the responsible individual. If necessary, the trustee may liquidate trust assets in order to be reimbursed as stated above.

To the extent the trustee is engaged in any form of litigation, arbitration, or dispute resolution concerning the trust assets or the interest of the trust, the trustee shall be entitled to recover all costs, fees and expenses, including reasonable attorney's fees, directly from the trust assets.

10.06 **Miscellaneous** - The trustee shall not be liable for any act or omission made in connection with the trust except for its intentional misconduct or negligence. Any required notice regarding the trust will be considered effective when the trustee mails it to the last address of the intended recipient which is contained in the trustee's records. Any notice to be given to the trustee will be considered effective when the trustee actually receives it. The responsible individual and/or designated beneficiary must notify the trustee of any change of address in a manner acceptable to the trustee.

The terms and conditions of this agreement shall be applicable without regard to the community property laws of any state.

The captions of Articles and Sections in this agreement are included for convenience only and shall not be considered a part of, or an aid to, the construction of this trust.

Grantor's signature ..... Date .....

Trustee's signature ..... Date .....

Witness' signature ..... Date .....

(Use only if signature of the grantor or the trustee is required to be witnessed.)

**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-E is a model trust 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 grantor and the trustee. 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 custodial account, see **Form 5305-EA**, Coverdell Education Savings Custodial Account.

**Do not** file Form 5305-E with the IRS. Instead, the grantor must keep the completed form in its records.

**Definitions**

**Trustee.** The trustee 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 trustee. Any person who may serve as a trustee of a traditional IRA may serve as the trustee of a Coverdell ESA.

**Grantor.** The grantor is the person who establishes the trust account.

**Designated beneficiary.** The designated beneficiary is the individual on whose behalf the trust 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 grantor and designated beneficiary's social security numbers will serve as their identification numbers. If the grantor is a nonresident alien and does not have an identification number, write "Foreign" on the return for which is filed to report the grantor's information. 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 grantor and trustee 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 trustee, trustee's fees, state law requirements, treatment of excess contributions, and prohibited transactions with the grantor, designated beneficiary, or responsible individual, etc. Attach additional pages as necessary.

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

A Coverdell education savings trust account (Coverdell account) is a trust that is created to help pay the qualified education expenses of the designated beneficiary of the account. The Coverdell account provides a unique savings vehicle where distributions of contributions and earnings are potentially tax free if used to pay for certain education expenses.

**Parties Involved in the Account**

Several parties are involved in the account:

- Trustee/Custodian – maintains the IRA on behalf of the designated beneficiary.
- Grantor/Depositor – establishes the IRA for the benefit of a designated beneficiary. The grantor does not have to be a family member. The grantor can also be the Responsible Individual.
- Designated Beneficiary – individual under age 18 who is named in the document and will receive the benefit of the funds in the account.
- Responsible Individual – usually the parent or guardian of the designated beneficiary. In some cases, the designated beneficiary can become the Responsible Individual at the age of majority. The grantor can also be the Responsible Individual.
- Contributor – The grantor is the initial contributor, but any eligible individual, including the designated beneficiary, can contribute to the account.
- Death Designated Beneficiary – person or entity named to receive the assets upon the death of the designated beneficiary.
- Replacement Designated Beneficiary – qualified family member who replaces the original designated beneficiary.

**Who is Eligible?**

The designated beneficiary must be under age 18 (or have special needs, if older) when original contributions are made to the account. The contributor must meet modified adjusted gross income (MAGI) requirements to fund a Coverdell account. Entities can contribute and the MAGI limits do not apply. For an individual, including married filing a separate return, the contribution is reduced with MAGI between \$95,000 - \$110,000. For contributors who are married filing a joint return, the contribution is reduced with MAGI between \$190,000 - \$220,000. The contributor does not have to have earned income to make a contribution. A grandparent receiving pension benefits only could use a portion of the money to contribute to the Coverdell account of a grandchild. Or, a child could use money received as a gift to contribute it to his or her own Coverdell account. Age limits for contributions, distributions, and rollovers do not apply to a designated beneficiary with special needs.

**How Much Can Be Contributed?**

The most that can be contributed during a given year for a designated beneficiary is \$2,000, excluding rollovers from another Coverdell account. A designated beneficiary can have more than one account, but the total annual contribution to all accounts combined cannot exceed \$2,000. Contributions must be made by tax filing deadlines, not including extensions. Contributions must be made in cash and are not tax deductible.

**Who Makes the Investments?**

The contributor usually chooses the initial investment for the account. Afterwards, the responsible individual has the power to change the initial investment and make decisions about investments for subsequent contributions.

**Tax-Free Distributions**

Distributions from a Coverdell account are tax free if the distribution is used to pay for qualified education expenses at an eligible educational institution. Qualified education expenses include tuition, fees, books, supplies, equipment, academic tutoring, special needs services, uniforms, transportation, educational computer technology including internet access, and room and board in certain situations (the student must be enrolled at least as a half-time student at an eligible educational institution). The designated beneficiary must report the amount of the distribution on Form 1040.

**Rollovers**

Any amount withdrawn from a Coverdell account and rolled over to another Coverdell account for the benefit of the same designated beneficiary or an eligible member of the designated beneficiary's family is not taxable. Within 30 days after the date the beneficiary attains age 30 or dies, any assets remaining in the account must either be distributed or rolled to a qualified family member's Coverdell account. Almost any relative will qualify as long as he or she is under age 30, although there are certain limits. Only one rollover is permitted per Coverdell account per 12 months, and rollovers must be completed within sixty days of receipt of the withdrawal. Also, rollovers must be in cash.

**Excess Contributions**

In the event of an excess contribution, the excess must be returned to the designated beneficiary. The excess contribution must be withdrawn by the first day of the sixth month following the taxable year (May 31), or it will be subject to a six percent excise tax. The excise tax will be imposed for each year the excess contribution remains in the account.

**Definitions**

**Half-time student** – The requirement that a student be at least a half-time student applies to room and board only. A half-time student is defined as one who is enrolled for at least half the full time academic workload for the course of study the student is pursuing as determined under the standards of the school where the student is enrolled.

**Eligible educational institution** – If the post-secondary educational institution is eligible to participate in a student aid program administered by the Department of Education, then it is an eligible educational institution. In addition to eligible post-secondary educational institutions, elementary and secondary schools (kindergarten through grade 12) are included in the definition of eligible educational institutions.

This booklet is informational only and should not be construed as providing individual tax or legal advice. For more information, consult IRS Pub. 970 (available at <http://www.irs.gov/pub/irs-pdf/p970.pdf>). Please consult your own tax advisor or attorney regarding your individual situation.

**Consult With Your Attorney**

Carefully read the enclosed information. Please consult with your attorney or tax advisor if you are thinking about starting your own trust.

**What is Required to Establish a Coverdell Education Savings Trust Account?**

When you decide to start your program, complete both the application and IRS Form 5305-E found in this package and return it with your acceptance fee made payable to Equity Trust Company.

**Note:** Paying by check authorizes Equity Trust Company to send the information from your check electronically to your bank for payment. You will not receive your original check back from your financial institution. For security reasons we will destroy your original check, but we will keep an electronic image of the check for recordkeeping purposes.

**Application**

This is the basic legal document through which you establish the trust. It should be carefully considered. Please complete and sign the application. Send the original to Equity Trust Company. Make one copy for your records and provide one copy to your investment executive. We cannot accept an incomplete or unsigned application.

**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 Equity Trust Company to obtain, verify, and record information that identifies each person who opens an account.

What this means for you: When you open an account, we will ask for your name, address, date of birth, and other information that will allow us to identify you. We may also ask to see your driver's license or other identifying documents.

**Trust Installation and Notice**

Individual accounts will be opened by your broker. The title of the account will be as follows:

Equity Trust Company, Trustee  
FBO (Name of Designated Beneficiary), Coverdell Education Savings Account (CESA)

**Account Executive Note:**

Duplicate statements should be sent to:

Equity Trust Company  
Attn: DTS  
P. O. Box 45274  
Westlake, OH 44145

**(Note:** Our Federal Tax ID number should appear when opening cash accounts. It is 05-0552743. When a cash account is opened, both Trustee and Designated Beneficiary must receive a statement).

**Investments**

It is the responsibility of the Responsible Individual to direct the investment of the Trust funds. Investment directions may be given directly to your brokerage firm. Investment confirmations will be sent to you by your broker. Any transactions not generating a confirmation must be accompanied by additional written instructions.

The facilities of your brokerage firm will be available to you so that you may obtain research material in connection with your investments. Your brokerage firm will receive only brokerage commissions or appropriate dealer markups for the purchase and sale of securities within your account.

The brokerage firm cannot exercise discretion or control over your account, unless you are using the services of a registered investment advisor. Although they may provide investment information and advice to you, they do not intend that any advice given by them will serve as the primary basis for your investment decisions. Furthermore, it is our understanding that you will exercise independent judgment in making investment decisions.

**Contributions**

**Important:** Forward all contributions to your broker. Contributions will be reported for the tax year for which the contribution is made. All rollovers must be made in the form of cash.

**Note:** With the exception of rollovers, contributions in excess of the allowable amount per year cannot be accepted. Do not over-contribute as this will cause a debit balance and may disqualify the Coverdell ESA. Commissions are part of the cost of the investment and may not be paid separately.

**Mailing Instructions**

If sent First Class, address to:

Equity Trust Company  
Attn: DTS  
P. O. Box 45274  
Westlake, OH 44145

If sent by a courier service, address to:

Equity Trust Company  
Attn: DTS  
1 Equity Way  
Westlake, OH 44145

**Important Information on "Float"**

Float is interest that is earned on funds held by service providers, generally in short term investments, pending investment or the cashing of outstanding benefit checks.

The Department of Labor (DOL) does not consider the retention of float by service providers to be a prohibited transaction under the Employee Retirement Income Security Act of 1974 (ERISA) if several guidelines are followed. You may view a copy of the details of the DOL's guidance on float at the following web address: <http://www.dol.gov/ebsa/regs/fabmain.html>.

Equity Trust Company may earn float on:

- Contributions awaiting investment direction.
- Outstanding benefit distribution checks. Float is earned until the checks are cashed.
- Outstanding dividend checks.

Equity Trust tries to minimize float as much as possible. For instance:

- We mail checks the day we issue them. However, we do not have control over when the checks are cashed.
- Contributions and dividend checks are normally sent for investment on the day after they are received (hence, we would not earn float) or as soon as possible thereafter. Certain situations (e.g., lack of allocation or investment directions, etc.) slows down the allocation or investment of those funds.

We do not credit float directly to the plans or accounts for which we provide services because the cost to track the amount of float on a per plan or per account basis and allocate it to the plan participants or account would far exceed the amount of float earned. In the end, the amount that we earn on float helps us keep our fees down. Please contact your Equity Trust Company representative at (800) 209-9010 if you have questions.

**Records**

It is extremely important for you to keep good records covering your contributions and investments. Remember that you assume the responsibility for filing all Federal and State tax returns and forms required as a participant of a Coverdell Education Savings Account.

(**Note:** Our Federal Tax ID number should appear when opening cash accounts. It is 05-0552743. When a cash account is opened, both Trustee and Designated Beneficiary must receive a statement).

In compliance with Internal Revenue Code (IRC) section 530 and the regulations thereunder, Equity Trust Company, as trustee, hereby provides this Disclosure Statement for the Coverdell education savings trust account (Coverdell account) to the “grantor” who established the Coverdell account for the benefit of the “designated beneficiary” (beneficiary).

#### **A. Revocation**

The responsible individual or grantor may revoke this Coverdell account within seven days from the date of its adoption. Upon revocation, the entire account plus the acceptance fee will be returned. The notice of revocation shall be in writing. The written notification of revocation may be mailed or hand delivered to the Trustee on or before seven days after the date the grantor adopted the trust.

In the event that the written notification is mailed, it shall be deemed to be mailed on the date of the postmark, or if sent by certified or registered mail, it shall be deemed to be mailed as of the date of certification or registration. If mailed, the written notice of revocation shall be mailed in the United States in an envelope or other appropriate wrapper, and it is to be mailed by first class mail with the postage prepaid and is to be addressed to:

Equity Trust Company  
Attn: DTS  
P. O. Box 45274  
Westlake, OH 44145

or

Equity Trust Company  
Attn: DTS  
1 Equity Way  
Westlake, OH 44145

Client Contact Center Phone: 800-209-9010

#### **B. Overview**

A Coverdell account is a trust or custodial account that is created or organized in the United States exclusively for the purpose of paying the qualified education expenses of the beneficiary of the account. The account must be designated as a Coverdell account when it is created to be treated as a Coverdell account for tax purposes.

A Coverdell account may be established for the benefit of any child under the age of 18. Contributions will not be accepted after the beneficiary reaches his or her 18th birthday. Special rules apply to designated beneficiaries with special needs.

There is no limit on the number of Coverdell accounts that may be established with a particular child as beneficiary. However, the total aggregate contributions to all of the accounts for a particular child may not exceed \$2,000 in any given tax year.

You can open a Coverdell account with any bank or other entity that has been approved to serve as a nonbank trustee or custodian of an IRA that also offers Coverdell accounts.

The grantor must name a responsible individual when the trust is established. The following rules apply to a responsible individual:

- A responsible individual shall be a parent or guardian of the beneficiary.
- The trust will only have one responsible individual.
- If the responsible individual dies or becomes incapacitated while the beneficiary is a minor, the successor responsible individual shall be the person named to succeed in that capacity by the preceding responsible individual. The successor responsible individual must be named in writing and the appointment must be witnessed. If no successor responsible individual is named, the successor responsible individual shall be the beneficiary's other parent or successor guardian.
- The beneficiary shall become the responsible individual upon reaching the age of majority, unless the grantor elects for the named responsible individual to continue to serve in that capacity. The election is made by marking the appropriate option on Form 5305-E.
- If the beneficiary dies and a family member under the age of majority becomes the beneficiary by reason of being a named death beneficiary, the responsible individual shall be such beneficiary's parent or guardian.
- For purposes of a rollover of a Coverdell account, a family member includes a:
  - i. child,
  - ii. grandchild,
  - iii. sibling,
  - iv. parent,
  - v. aunt or uncle,
  - vi. niece or nephew,
  - vii. son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law,
  - viii. spouse,
  - ix. first cousin

There are two definitions you should be familiar with in regard to Coverdell accounts:

1. **Qualified education expenses** – Expenses for tuition, fees, books, supplies, equipment, academic tutoring, special needs services, uniforms, transportation, and educational computer technology including internet access required for the enrollment or attendance of the designated beneficiary at an eligible educational institution. These expenses also include:
  - Amounts contributed to a qualified state tuition program
  - Room and board (generally, the schools' posted room and board charge, or \$2,500 per year for students living off-campus and not at home) if the student is at least a half-time student at an eligible educational institution.
2. **Eligible educational institution** – Any college, university, vocational school, or other post-secondary educational institution including elementary and secondary schools (kindergarten through grade 12) that is described in Section 481 of the Higher Education Act of 1965 (20 U.S.C. 1088) and therefore, eligible to participate in the student aid programs administered by the Department of Education. This category includes almost all accredited public, nonprofit, and proprietary post-secondary institutions.

### C. Contributions

The following rules for contributions apply to Coverdell accounts:

1. **Amount** – Up to \$2,000 per year in **aggregate** contributions may be made for the benefit of any child. The contributions may be placed in a single Coverdell account or in multiple Coverdell accounts. There is no limit on the number of Coverdell accounts that may be established designating a child as beneficiary, as long as the total contributions to all accounts do not exceed \$2,000 in the year.
2. **Timing** – Contributions must be made by the tax filing deadline, not including extensions of the year to which they apply.
3. **Type** – Contributions will be accepted in cash only.
4. **Restrictions** – Any individual (including the child) may contribute to a Coverdell account if the individual's modified adjusted gross income (MAGI) for the taxable year is no more than \$95,000 (\$190,000 for married taxpayers filing jointly). The \$2,000 limit is reduced for individuals with modified adjusted gross income between \$95,000 and \$110,000 (between \$190,000 and \$220,000 for married taxpayers filing jointly). Taxpayers with MAGI above \$110,000 (\$220,000 if married filing jointly) cannot make contributions to anyone's Coverdell account.

**To determine your maximum contribution:**

MAGI – Max limit of \$95,000

\$2000 Maximum X (assumes single filer) = Contribution

\$15,000 (spread between \$95,000 and \$110,000)

For instance, an unmarried taxpayer with MAGI of \$96,500 could make a maximum contribution per child of \$200 for that year ( $\$2000 \times (\$96,500 - \$95,000) / \$15,000 = \$200$ ).

5. **Deductibility** – Contributions to a Coverdell account are not tax-deductible.
6. **Excess Contributions** – There are three ways you can over contribute to the account. They are:
  - If the aggregate contributions for the benefit of a particular child exceed \$2,000 for a calendar year,
  - If the contributions exceed the contribution limit based on the contributor's MAGI, even if less than \$2,000, or
  - If contributions are made to the account after the designated beneficiary turns 18 (unless the child has special needs).

The excess contribution must be withdrawn by the first day of the sixth month following the taxable year (May 31), or it will be subject to a six percent excise tax. The excise tax will be imposed for each year the excess contribution remains in the account.

### D. Rollovers

In general:

- Funds from a Coverdell account can only be deposited to another Coverdell account
- Funds must be deposited not later than 60 days after the date the distribution is made,
- The receiving Coverdell account must be for the benefit of the same beneficiary or a member of the beneficiary's family (as described in Section B),
- The beneficiary of the receiving Coverdell Account must not have attained age 30 as of the date the funds are deposited,
- Only one rollover is allowed per 12-month period,
- The \$2,000 limit does not apply to rollover contributions,
- Rollovers must be made in the form of cash.

**E. Investments**

The grantor has the authority to direct the trustee regarding the investment of the amount the grantor assigns to the trust. The responsible individual, however, can redirect the trustee regarding such amount and any additional contributions (and earnings) to the trust.

No part of the trust funds may be invested in life insurance contracts.

The assets of the trust may not be commingled with other property except in a common trust fund or common investment fund.

No investments in Limited Partnerships or Limited Liability Companies are permitted in Equity Trust Company's Coverdell accounts.

It is the responsibility of the responsible individual to select and direct the investment of the trust fund, either in person or through an investment manager. Selection of investments may be made in common stocks, government and corporate bonds, mutual funds, savings programs, certain option transactions, and other lawful trust investments as stated in the trust document. Investments not generating confirmations must be accompanied by additional written instructions. An investment in collectibles, with the exception of certain U.S. minted coins, will be treated as a distribution under IRC section 408(m). Although brokerage firms may provide investment information to your account, they do not intend that any information given by them will serve as a primary basis for investment decisions. Furthermore it is our understanding that you will exercise independent judgment in making your investment decisions. The broker is only acting as the trustee's agent for the purpose of the completion of the application and for providing brokerage services as outlined in the Coverdell account. Any questions concerning the authority of your broker should be directed to the trustee. The broker is not an employee of Equity Trust Company, and Equity Trust Company does not supervise or control the activity of the broker.

**F. Distributions**

Distributions to a beneficiary are tax free if:

- The amount of the withdrawal does not exceed the beneficiary's qualified education expenses (as defined in IRC section 530. See Section B above for a summary),
- The designated beneficiary is enrolled in an eligible educational institution (as defined in IRC section 530. See Section B above for a summary).

The beneficiary may be enrolled full-time, half-time, or less than half-time.

If the beneficiary withdraws an amount from a Coverdell account and does not have any qualified education expenses during the taxable year, the portion of the distribution that represents earnings that have accumulated tax-free in the account, are taxable. The taxable portion of the distribution is also subject to a 10 percent additional tax, unless an exception applies. Exceptions are:

1. Payments made to a death beneficiary (or to the estate of the beneficiary) on or after the death of the designated beneficiary;
2. Payments made to the beneficiary on account of being disabled (within the meaning of IRC section 72(m)(7));
3. Payments made on account of a scholarship, allowance, or payment described in IRC section 25A(g)(2), received by the account holder to the extent the amount of the payment or distribution does not exceed the amount of the scholarship, allowance, or payment; or
4. The beneficiary elects to waive the tax exempt benefit under IRC section 503(d)(2).

**Required Distributions**

Any balance remaining in a Coverdell account must be distributed:

- within 30 days of the date the beneficiary attains age 30 (unless the designated beneficiary has special needs), or
- within 30 days after the date of death of such beneficiary.

If the beneficiary withdraws the funds from the account, they will be subject to income tax and the additional 10 percent tax on the amount that represent earnings.

The beneficiary may also:

- roll over the funds to another Coverdell account for the benefit of a member of his or her family who has not attained age 30, or
- if the terms of the trust so permit, change the beneficiary to a new beneficiary who is a member of the previous beneficiary's family who has not attained age 30 (See Section B).

Amounts rolled over in compliance with the requirements in Section D or when the beneficiary is changed to a family member will not be includible in income or subject to the 10 percent tax.

**Special Rules****1. Death and Divorce**

The transfer of a beneficiary's interest in a Coverdell account to a spouse under a divorce or separation agreement described in IRC section 71(b)(2) will not be considered a taxable transfer. Furthermore, the interest, after such transfer, will be treated as a Coverdell account with the spouse as the beneficiary.

If the beneficiary dies and the surviving spouse is the designated death beneficiary; the surviving spouse may treat the account as if he or she were the account holder.

**2. Special Needs**

Age limits for contributions, distributions, and rollovers do not apply to individuals with special needs. You should consult with your tax advisor to determine whether the beneficiary qualifies for this treatment.

**G. Financial Disclosure****1. The amount of the money that will be available at any period of time will depend on the following:**

- Amount of contributions
- Total year of participation
- Earnings including interest, dividends, realized and unrealized gain and loss
- Expenses

A guaranteed return or projected amount cannot be furnished because of the numerous investments available to you.

**2. Fees are charged by the Trustee on an annual basis. Refer to the attached Schedule of Fees.**

In the event that the trustee's compensation, taxes, and expenses are not paid within a reasonable time after demand for such payment has been made by the trustee on the responsible individual, the trustee will charge the trust funds such fees, taxes, and expenses. The trustee may also liquidate such assets of the trust funds for such purposes as in its sole discretion it shall determine. The custodian will collect such fees, taxes, and expenses for the trustee as so directed by the trustee.

In the event the account becomes delinquent and it becomes necessary to collect the balance through the services of a collection agency, the responsible individual will be responsible for the fees of such collection agency, separate from the fees due to the trustee.

The trustee reserves the right to revise the fee schedule and will provide ample notice of any such revision to the responsible individual.

**H. Form 5498**

Form 5498-ESA will be completed by the trustee and forwarded to the beneficiary and the IRS. This form reports contributions and rollovers received during the year. To ensure accuracy of the form, the individual's cash statement from the brokerage firm must reflect whether money coming into the account is a contribution or rollover.

**I. Additional Information**

1. The grantor agrees that all lawsuits filed by the grantor, responsible individual, and/or beneficiary and the trustee and/or any of its officers, directors, or employees present or former concerning or arising from:
  - any retirement account maintained with the trustee by the grantor, responsible individual or beneficiary;
  - any transaction involving the beneficiary's account, whether or not such transaction occurred in such account or accounts; or
  - the construction, performance, or breach of this Agreement between us, whether such controversy arose prior, on, or subsequent to the date hereof, shall be instituted in the county courts of Lorain County, Ohio where trustee maintains its principal office. Grantor/responsible individual and/or beneficiary agrees to submit to such jurisdiction both in connection with any such suit he/she may file and in connection with any suit trustee may file.
2. The determination that any provision of this self-directed agreement and disclosure statement is not enforceable in accordance with its terms in a particular jurisdiction shall not affect the validity or enforceability of the remaining provisions of this trust agreement generally or in any other jurisdiction or as to any other parties, but rather such unenforceable provisions shall be stricken or modified in accordance with such determination only as to such parties and this trust agreement, as so modified, shall continue to bind the specific parties involved therein and otherwise all other parties in unmodified form.
3. A signed copy of Form 5305-E "Coverdell Savings Trust Account" will be mailed to the grantor and the responsible individual upon the trustee's acceptance.
4. Further information can be obtained from any district office of the Internal Revenue Service.

<b>Acceptance Fee</b>	
Opening the Trust Account <i>The acceptance fee will be refunded if you revoke the Trust within seven (7) days from the date of adoption</i>	\$ 25
Service charge if acceptance fee does not accompany application	\$ 12
<b>Annual Fees</b>	
Annual Fee <i>Annual fees are charged on a calendar year basis and are not pro-rated. There is no percentage charge based on cumulative assets.</i>	\$ 250
Late Payment or directive to debit your account for Trustee fees (after 30 days)	\$ 10
Investment holding fee	\$ 15
<b>Fees for Disbursement from Trust</b>	
Partial distribution <i>Includes refund/re-allocation of excess - no cap</i>	\$ 30
<b>Other Charges</b>	
Transfer or termination of an existing Trust in addition to annual fees	\$ 100
Change in brokerage firm	\$ 15
Transaction requiring trustee processing - <i>No charge for buys and sells in the brokerage account</i>	\$ 15
Processing on terminated Trust - <i>Processing of checks or securities after the account has been closed more than 6 months</i>	\$ 25
Reissue check over 6 months old	\$ 30
Returned check	\$ 25
Additional managed account	\$ 25
Investment Review	\$ 150
Research of transaction over 6 months old per hour (minimum ½ hour)	\$ 80
Affidavit of Loss	\$ 50
Never funded account, after one year	\$ 50
Reinstatement of closed account	\$ 50
Preparing Form 990-T	\$ 150
Outgoing wire processing	\$ 25
<b>Special services not otherwise provided above</b>	As agreed

*In the event the fees become delinquent and it becomes necessary to collect the balance through the services of a collection agency, you will be held responsible for their fees.*

**Your Trustee fees depend on the Brokerage Firm who services your account. Please check with your Brokerage Firm for all fees applicable to your account. If you transfer your account to another Brokerage Firm, you will need to obtain another schedule of fees.**