

# **RHODE ISLAND TUITION SAVINGS PROGRAM**

## **RULES AND REGULATIONS**

### **1. *Introduction***

Section 16-57-6.1 of the General Laws of Rhode Island (the “*Act*”) directs that the Rhode Island Higher Education Assistance Authority (the “*Authority*”) in conjunction with the executive director of the Rhode Island Student Loan Authority (“*RISLA*”) and the commissioner of higher education of Rhode Island establish in such form as the Authority deems appropriate a tuition savings program to allow persons to save monies for the sole purpose of meeting the Qualified Higher Education Expenses of their designated beneficiaries. Pursuant to that direction, the Authority has established the Rhode Island Tuition Savings Program also known as the CollegeBoundfund (the “*Program*”) having the mandated features described in the Act and the additional features set forth in these rules and regulations (the “*Rules and Regulations*”), which elaborate on and supplement the Act and govern the operation of the Program.

In accordance with the Act, the Authority has as part of the Program established the Rhode Island Higher Education Savings Trust, of which the Authority is trustee, to hold the assets of the Program (the “*Trust*”). Amounts held in the Program shall not constitute property of the State or be commingled with State funds. The State shall have no claim to or against or interest in such amounts.

Consistent with the Act, the Authority reserves the right to amend these Rules and Regulations from time to time without prior notification as the Authority determines to be necessary or appropriate to satisfy any requirements of Section 529. These Rules and Regulations are also subject to change by the Authority from time to time without prior notification except as may be required by applicable law.

### **2. *Definitions and Rules of Construction***

(a) Each of the following terms has the meaning that term has under Section 529 and the applicable regulations thereunder as in effect at the relevant time, including any proposed regulations which may be relied on for purposes of the Program, as Section 529 and/or the regulations may be elaborated on, modified, supplemented or superseded by any applicable revenue rulings or other official pronouncements (collectively, the “*Regulations*”):

Contribution

Disability

Distribution

Earnings

Eligible Educational Institution

Member of the Family

Person

Qualified Higher Education Expenses

Qualified State Tuition Program (for taxable years beginning after 2001, a Qualified Tuition Program)

(b) The following terms shall, respectively, have the following meanings. Each other initially capitalized term used herein shall have the meaning elsewhere set forth herein.

*“Account”*: An account in the Trust established pursuant to a Participation Agreement.

*“Administrative Fund”*: The meaning that term has in the Act.

*“Designated Beneficiary”*: The individual last named by the Participant of an Account as beneficiary of the Account on the Participation Agreement for that Account or, with respect to an Account of which the Participant is a state or local government (or agency or instrumentality thereof) or an Exempt Organization, the individual receiving benefits accumulated in the Account as a Scholarship.

*“Disabled”*: A condition in which the individual involved is under a Disability.

*“Gift to Minors Account”*: A Uniform Gifts to Minors Act Account, a Uniform Transfers to Minors Act Account or a similar account established under state law.

*“Internal Revenue Code”*: The Internal Revenue Code of 1986, as amended from time to time.

*“Manager”*: A financial institution selected by the Authority in conjunction with the Rhode Island State Investment Commission to act as manager of the Program, while such institution is so acting.

*“Non-Resident Account”*: An Account other than a Rhode Island Account.

*“Non-Qualified Withdrawal”*: For taxable years beginning before 2002, any withdrawal from an Account other than (i) a Qualified Withdrawal, (ii) a withdrawal made as a result of the death or Disability of the Designated Beneficiary of the Account, (iii) a withdrawal made on account of the receipt of a Scholarship by the Designated Beneficiary to the extent the amount withdrawn does not exceed the amount of the Scholarship, or (iv) a Rollover Distribution; for taxable years beginning after 2001, any payment from an Account other than (i) a Qualified Withdrawal, (ii) a withdrawal paid to the Designated Beneficiary of the Account (or to the estate of the Designated Beneficiary) on or after the death of the Designated Beneficiary, (iii) a withdrawal attributable to the Beneficiary's Disability, (iv) a withdrawal made on account of a Scholarship received by the Designated Beneficiary to the extent the amount of the withdrawal does not exceed the amount of the Scholarship, or (v) a Rollover Distribution.

*“Participant”*: An (a) individual (including an individual acting as custodian or in a corresponding capacity of a Gifts to Minors Account) or other Person who has established an Account or a successor to such individual or other Person, and (b) with respect to an Account to

which Contributions are made by (i) a state or local government (or agency or instrumentality thereof) or (ii) organization described in section 501(c)(3) of the Internal Revenue Code and exempt from taxation under section 501(a) as part of a scholarship program operated by such government or organization (an “*Exempt Organization*”), the government (or agency or instrumentality thereof) or Exempt Organization that established that Account or its successor.

“*Participation Agreement*”: An agreement between the Authority and a Participant governing an *Account*, including any amendment or supplement thereto or thereof.

“*Person*”: An individual, corporation, trust or other “person” within the meaning of Section 529.

“*Program Fund*”: The meaning that term has in the Act.

“*Qualified Withdrawal*”: A withdrawal from an Account to pay Qualified Higher Education Expenses of the Designated Beneficiary of the Account.

“*Rhode Island Account*”: An Account established by an individual or other Person who when the Account is opened is a Rhode Island resident, an employee of a Rhode Island employer, or an individual or other Person whose principal place of business is in Rhode Island, or whose Account Designated Beneficiary at that time is a Rhode Island resident. An address set forth in the Participation Agreement when the Agreement is opened shall be satisfactory evidence for the purpose of determining whether an Account is a Rhode Island Account.

“*Rollover Distribution*”: A Distribution from an Account that is transferred to or deposited within 60 days of the Distribution into another Account or an account in another state’s Qualified State Tuition Program, in each case, except as permitted by Section 529, established for the benefit of a different beneficiary who is a Member of the Family of the Designated Beneficiary of the Account from which the Distribution is made.

“*Scholarship*”: For taxable years beginning before 2002, a “scholarship” within the meaning of Section 529 (or an allowance or payment described in section 135(d)(1)(B) or (C) of the Internal Revenue Code); for taxable years beginning after 2001, a “scholarship, allowance, or payment” referred to in section 530(d)(4) of the Internal Revenue Code.

“*Section 529*”: *Section 529* of the Internal Revenue Code.

“*State*”: The state of Rhode Island and Providence Plantations.

(c) For all purposes of these Rules and Regulations, except as otherwise expressly provided or unless the context otherwise requires:

(i) Singular words shall connote the plural as well as the singular, and vice versa (except as indicated), and words importing the masculine shall include the feminine and neuter gender, and vice versa, in each case as may be appropriate.

(ii) The words “herein”, “hereof” and “hereunder” and other words of similar import used in these Rules and Regulations refer to these Rules and Regulations as a whole and not to any particular section, paragraph or clause.

(iii) References to “including” mean including without limiting the generality of any description preceding such term.

### **3. *Opening Accounts; Participation Agreements; Certain Charges***

(a) Each Account shall be governed by a Participation Agreement between the Authority and the Participant of the Account.

(b) An Account may be opened by any Participant who desires to save money for the payment of the Qualified Higher Education Expenses of a Designated Beneficiary. No Participant or Designated Beneficiary or any other Person making a Contribution to an Account need be a resident or domiciliary of the State or have any other connection with the State.

(c) The Participant of an Account may be the Designated Beneficiary of the Account. More than one Account may be opened by a Participant in respect of the same Designated Beneficiary. The Participant and/or Designated Beneficiary of an Account may be changed as provided below.

(d) A Participation Agreement shall provide such information as the Authority and the Manager shall prescribe and shall include at least the name, address, birth date and Social Security Number or Taxpayer Identification Number of the Participant and the Designated Beneficiary of the Account governed by the Participation Agreement.

(e) A Participation Agreement may be amended, modified or supplemented from time to time in any respect permitted by the Authority and the Manager, including to change the Participant or Designated Beneficiary of the Account as permitted below and to change any other information set forth therein.

(f) Participation in the Program does not guarantee in any way that the actual Qualified Higher Education Expenses of a Designated Beneficiary will be equal to any projections or estimates of such costs used to limit Contributions to the Program in respect of such Designated Beneficiary. In addition, the establishment of an Account does not guarantee that the Designated Beneficiary of the Account will:

(i) be admitted to an institution of higher education;

(ii) be allowed to continue enrollment at an institution of higher education following admission; or

(iii) graduate from an institution of higher education.

(g) The Manager on a timely basis is to confirm to each Person from whom a properly completed Participation Agreement is received by the Manager that the Account governed thereby has been established. An Account will not be established on the basis of an incomplete Participation Agreement.

(h) With respect to Accounts established through financial advisors and/or brokers, such charges may be imposed as the Authority may approve pursuant to agreement with the Manager. These charges may include (i) charges imposed as a percentage of Contributions or Account balances and (ii) contingent deferred redemption charges imposed based on the period Contributions were held in Accounts.

#### **4. *Contributions***

(a) Contributions to Accounts may be accepted at any time subject to the then applicable maximum Contribution limit provided for herein. All Contributions made to an Account and Earnings thereon shall be allocated to that Account.

(b) Contributions to an Account may be made by Persons other than the Participant of the Account whether or not the Participation Agreement with respect to the Account so indicates.

(c) Contributions may be made only in cash, not property, and in the following forms: (i) a check (but not a money order) drawn in U.S. dollars on a banking institution located in the United States, (ii) a non-employment related scheduled periodic electronic funds transfer from the checking or savings account of the Participant or another contributor; (iii) an electronic funds transfer from a checking or savings account in connection with a Program payroll deduction or other arrangement with the Participant's employer; (iv) a transfer from a bank account of the Participant pursuant to an authorized telephone direction; or (v) any other means which the Manager may permit.

(d) Contributions to an Account may derive from a Gifts to Minors Account for the benefit of the Designated Beneficiary of the Account.

(e) Neither any Participant or other contributor to an Account nor the Designated Beneficiary of an Account may direct the investment of any contributions to or assets of an Account. Changes in the option governing the investment of all or a portion of the assets of an account, however, are permissible if pursuant to a structure approved by the Authority and consistent with regulations issued under Section 529 or other applicable guidance issued by the Internal Revenue Service.

(f) No interest in the Program or any portion thereof may be used as security for a loan, including, but not limited to, a loan used to purchase such interest in the Program.

(g) A minimum Contribution of such amount as the Authority may prescribe may be required to establish an Account. A minimum level of subsequent Contributions may also be prescribed by the Authority. The minimums may differ depending on whether the Account is a Rhode Island Account or Non-Resident Account and depending on the manner in which Contributions are to be made to the Account.

(h) Contributions to all Accounts for a particular Designated Beneficiary are not to exceed the amount determined from time to time by the Authority applying a methodology designed to preclude excess Contributions in compliance with subsection (b)(7) of Section 529. That methodology, the nature and components of which are to be reviewed annually, shall permit Contributions to all Accounts for the same Designated Beneficiary in an amount up to the

amount considered by the Authority from time to time as necessary to pay from such Accounts all of the cost of Qualified Higher Education Expenses of the Designated Beneficiary of undergraduate and graduate enrollment at the highest cost Eligible Educational Institution in the United States from such period or periods as the Authority determines to be desirable to permit Participants in the Program to fund. Subject to change in the Authority's discretion, this period shall be five years of undergraduate enrollment and two years of graduate enrollment. A Contribution to an Account for a Designated Beneficiary shall not be permitted if such Contributions would result in the balance in the Accounts for such Designated Beneficiary, plus prior Distributions therefrom to pay Qualified Higher Education Expenses of the Designated Beneficiary, as determined as of the prior year end, or such other date as the Authority may determine on a basis uniformly applicable for all Accounts, to exceed the cost of Qualified Higher Education Expenses determined by the Authority as provided above.

(i) The Manager shall on a timely basis provide to the Participant of an Account confirmation of the receipt of each Contribution to the Account.

(j) Subject to Section 8(b) of these Rules and Regulations, all Contributions to Accounts shall be credited to the Program Fund, as shall amounts transferred to the Program Fund from the Administrative Fund pursuant to Section 8(b). The Program Fund shall consist of two subfunds, the "Authority Subfund" and the "Accounts Subfund". The Authority Subfund shall consist of the assets of the Program Fund so transferred from the Administrative Fund and any other assets transferred thereto by the Authority or from any other source, as adjusted from time to time to reflect the investment performance of the assets in the Authority Subfund from time to time, and reduced by any payments therefrom as referred to below. The remainder of the Program Fund, which is to be held in the Accounts Subfund, shall at any time consist of the then aggregate balance in the Accounts. Payments from the Accounts Subfund, other than to the Administrative Fund in accordance with Section 8(b), shall be made only at the direction of Participants and in accordance with the Program. Payments from the Authority Subfund shall be made to fund such program or programs of post-secondary student financial assistance administered by the Authority as the Authority may decide upon; provided that each such use must be permissible under Section 529 and Chapter 16-57 of the Act. If at any time following any such transfer from the Administrative Fund to the Authority Subfund in accordance with Section 8(b), the amount in the Administrative Fund is not sufficient to pay administrative costs to be paid therefrom pursuant to Section 8(b), the Authority shall promptly cause there to be transferred from the Authority Subfund to the Administrative Fund, or otherwise pay to the Administrative Fund, the additional amount necessary to pay such costs, but not exceeding the aggregate net amount previously transferred in accordance with Section 8(b) from the Administrative Fund to the Authority Subfund.

## **5. *Control of Accounts***

The Participant of an Account is the legal owner of the Account, and only the Participant, or a duly authorized representative of the Participant, may authorize any or all of the following:

- (a) A Distribution from the Account, including a Rollover Distribution;

- (b) A change of the Designated Beneficiary of the Account;
- (c) A change in the Participant of the Account;
- (d) The appointment of a successor to the Participant; or
- (e) The closing of the Account.

## **6. Withdrawals**

(a) An Account need not be open for any minimum period for any withdrawal to be made therefrom.

(b) In order to make a withdrawal from an Account, the Participant of the Account must submit to the Manager a direction for the withdrawal in such form and provide such information and documentation as the Manager may prescribe.

(c) The procedures governing Program withdrawals set forth in Section 6(d) shall be applicable unless Regulations bearing thereon are changed, in which event, the procedures may be modified by the Authority upon the Manager's recommendation to comply with and/or to take advantage of the revised Regulations. Participants affected shall be informed of any such changes.

(d) A Distribution shall be treated as one for Qualified Higher Education Expenses of the Designated Beneficiary of the Account from which the Distribution is made only if:

(i) The Distribution is made directly to the Eligible Educational Institution the Designated Beneficiary is attending or will attend;

(ii) The Distribution is made by check payable to both the Designated Beneficiary and that Eligible Educational Institution;

(iii) The Distribution is made after the Designated Beneficiary submits substantiation satisfactory to the Manager after review of such substantiation by the Manager's personnel responsible for that function to show that the Distribution is a reimbursement for Qualified Higher Education Expenses that the Designated Beneficiary has already paid; or

(iv) The Designated Beneficiary certifies to the Manager prior to the Distribution that the Distribution will be expended for his or her Qualified Higher Education Expenses within a reasonable time after the Distribution is made; the Manager requires the Designated Beneficiary to substantiate to the Manager payment of the Designated Beneficiary Qualified Higher Education Expenses within 30 days after the making of the Distribution; and the remaining balance in the Account from which the Distribution is made is large enough from which to collect the applicable Non-Qualified Withdrawal Penalty (as defined below) if valid substantiation of such payment is not provided to the Manager on a timely basis.

(e) Only the Participant of an Account may close the Account, provided that if the Manager determines that either a Participant or the Designated Beneficiary of an Account has made any material misrepresentation in the Participation Agreement governing the Account or in any communication with the Manager concerning the Account, the Account may be involuntarily closed and in such event, amounts in the Account shall be distributed to the Participant less any applicable Non-Qualified Withdrawal Penalty.

## **7. *Penalties and Administrative Fees***

(a) The Manager shall withhold a penalty equal to 10% (or such other percentage as is specified pursuant to Section 7(b)) of the Earnings portion of each Distribution made in a taxable year beginning before 2002 that is a Non-Qualified Withdrawal (the “Non-Qualified Withdrawal Penalty”). The Earnings portion of a Distribution for this and other purposes of the Program shall be determined by the Manager in accordance with the Regulations.

(b) The Authority may increase the amount of the Non-Qualified Withdrawal Penalty if it determines that such increase is necessary for such penalty to constitute a “more than de minimus penalty” meeting the requirements of subsection (b)(3) of Section 529, and the Authority may reduce the Non-Qualified Withdrawal Penalty if it determines that such penalty exceeds the amount necessary for the penalty to comply with the “more than de minimus penalty” requirement of subsection (b)(3) of Section 529.

(c) In the event a Non-Qualified Withdrawal Penalty is withheld from a Distribution and the Participant of the Account from which the Distribution was made thereafter substantiates to the satisfaction of the Manager that the Designated Beneficiary had Qualified Higher Education Expenses greater than or equal to the Distribution, the Manager shall promptly so advise the Authority, and the Authority will promptly thereafter transfer from the Administrative Fund to the Program Fund the amount of such Non-Qualified Withdrawal Penalty, which amount the Manager shall promptly recredit to the Account from which the Distribution was made and pay out in accordance with the original direction from the Participant.

(d) If required under, or provided for as a basis for relying on, the Regulations, the Manager shall require each Designated Beneficiary or Participant who is treated under Section 529 as having received a Distribution to pay Qualified Higher Education Expenses to provide to the Manager at the end of each calendar year in which Qualified Withdrawals were made and of the next calendar year a signed statement identifying the amount of any refunds received during such period from Eligible Educational Institutions or expenses to be paid from such Distribution but which were not paid and committing to pay the amount of each such refund or expenses not incurred to the Manager promptly upon receipt. The Manager shall, promptly after receipt of any such amount, recredit the amount to the Account from which the Distribution was made.

(e) If prior to a Distribution to be made in a taxable year beginning before January 1, 2002, the Manager receives a certification from the Participant of an Account that the Distribution is being made because the Designated Beneficiary of the Account has died, become disabled or has received a Scholarship (and, in the case of a Scholarship, the Distribution does not exceed the amount of the Scholarship), the Manager shall withhold from the Distribution an amount equal to the Non-Qualified Withdrawal Penalty required to be withheld but for such



certification unless with the certification the Manager receives third-party confirmation as to the correctness of the fact(s) so certified by the Participant. If no such third-party confirmation is provided, but the Manager thereafter receives such confirmation, the Manager shall promptly so advise the Authority and the Authority is to promptly thereafter transfer from the Administrative Fund to the Program Fund the amount of such Non-Qualified Withdrawal Penalty, which amount the Manager shall promptly recredit to the Account from which the Distribution was made and pay out in accordance with the original direction from the Participant.

(f) In the event the Manager determines that a Non-Qualified Withdrawal Penalty is applicable with respect to a prior Distribution from which no Non-Qualified Withdrawal Penalty was withheld, the Manager will collect the penalty owed in respect of such Distribution by debiting the Account or, if the Account has been closed or there is an insufficient balance in the Account, another Account maintained for the Designated Beneficiary involved, and if there is no such Account or the balance in all such other Accounts is not sufficient, the Manager will prepare a bill for the amount of the uncollected Non-Qualified Withdrawal Penalty to, and attempt to collect that amount from, the Participant of the Account from which the Distribution involved was paid and/or the Designated Beneficiary.

(g) An annual administrative fee of \$25.00 shall be imposed on each Non-Resident Account. The administrative fee imposed pursuant to Section 16-57-6.1(d) or Section 16-57-6.1(e) of the Act on Non-Qualified Withdrawals shall be \$50.00, or the amount withdrawn, if less. An administrative fee of \$50.00 shall also be imposed on each Rollover Distribution from the Program to another Qualified State Tuition Program. Any of the foregoing fees are subject to change in the Authority's discretion, and other administrative fees may be imposed in the Authority's discretion subject to the Act and any agreement with the Manager. Any administrative fee otherwise applicable may be waived by the Authority for certain Accounts or categories thereof and different fees may apply depending on when an Account is established.

## **8. *Timing of Distributions; Administrative Fund***

(a) Each properly directed Distribution shall be made promptly after all required information or substantiation, if any, has been received by the Manager; provided that duly authorized Distributions to pay Qualified Higher Education Expenses shall be made on a duly authorized schedule, if applicable, insofar as reasonably practicable.

(b) All penalties and administrative fees withheld from, or charged to, an Account and all other amounts to be credited to the Administrative Fund by agreement with the Manager shall be transferred to the Administrative Fund. Assets of the Administrative Fund shall be applied to pay administrative costs of the Program; provided that, at the direction of the Authority, there shall from time to time be transferred from the Administrative Fund to the Authority Subfund such amounts as the Authority then determines in its sole discretion to be in excess of amounts reasonably necessary to pay current and anticipated expenses of administering the Program.

## **9.     *Change of Designated Beneficiary or Participant***

(a) Except as regards the Designated Beneficiary of an Account of which the Participant is a Person described in clause (b) of the Participant definition, except as otherwise permissible under Section 529, a Participant may only change the Designated Beneficiary of an Account to an individual who is a Member of the Family of the Designated Beneficiary being changed; provided that the Designated Beneficiary of an Account which is also a Gifts to Minors Account may not be changed.

(b) A Participant of an Account may designate a successor Participant of the Account to take effect on the Participant's death or Disability or otherwise. A Person so designated must, if and as required by the Manager, agree to so act as successor Participant. The consent of a designated successor Participant to the designation by the Participant of another designated successor Participant in place of the prior designee shall not be required. On the death or Disability of the Participant of an Account who has made such a designation, the duly designated successor Participant shall become the new Participant of the Account. If at the death of a Participant of an Account, a designation by that Participant of a person to become the Participant of that Account is not effective, the Participant of that Account shall be the deceased Participant's estate.

## **10.    *Statements***

The Manager shall provide to each Participant at least quarterly an Account statement in respect of each of his or her Accounts showing at a minimum for the period covered by the statement (i) the total Account balance, (ii) total Contributions to the Account, (iii) Earnings credited to the Account, and (iv) total Distributions from the Account.