

# Office of the State Treasurer

## Mississippi Prepaid Affordable College Tuition Program

### Disclosure and Privacy Statement for Legacy Contracts (Contracts purchased prior to 2014)

This disclosure statement and program description (the "Disclosure Statement") of the Mississippi Prepaid Affordable College Tuition Program ("MPACT") is provided in connection with the offering of Prepaid Tuition Contracts by the Board of Directors (the "Board") of the College Savings Plans of Mississippi Trust Funds (the "Trust Fund"), an agency and instrumentality of the State of Mississippi (the "State"). A Prepaid Tuition Contract consists of the MPACT Application, the MPACT Master Contract, the Participation and Payment Schedule, and additional documents issued, disseminated or received by the State Treasurer in connection with any of the foregoing (collectively, the "MPACT Contract" or "Contract"). Applications for the purchase of a Contract are available at the MPACT Office located at 1101 Woolfolk State Office Building, 501 N. West Street, Jackson, MS. The purchase of, and ownership of a Contract are governed by the terms of the Application, the Contract, as well as the Disclosure Statement, and the Rules, Regulations & Procedures (the "Rules") promulgated by the Board from time to time. The offering and administration of Contracts by the Board is herein referred to as the "MPACT Program." The capitalized terms not otherwise defined herein have the meanings attributed to such terms in the MPACT Master Contract and Rules.

References to the State Treasurer or the Office thereof, shall mean and refer to the State Treasurer acting on behalf of the Board consistent with the Rules of the Board. The Rules are delivered to each Purchaser upon enrollment in the Program.

THIS DISCLOSURE STATEMENT PROVIDES IMPORTANT INFORMATION CONCERNING CERTAIN MATERIAL RISKS ASSOCIATED WITH THE PURCHASE OF A CONTRACT. PURCHASERS ARE STRONGLY URGED TO READ THIS DISCLOSURE STATEMENT IN ITS ENTIRETY BEFORE PURCHASING A CONTRACT. THIS DISCLOSURE STATEMENT SHOULD NOT BE CONSTRUED TO CONTAIN OR PROVIDE LEGAL, FINANCIAL OR TAX ADVICE. THIS DISCLOSURE STATEMENT IS NOT A PART OF THE CONTRACT.

Any description herein of the Application, the Contract, the Rules, or any other document relating to the MPACT Program is not intended to be a definitive or comprehensive statement of the terms and conditions of such documents. Reference is hereby made to each respective document for the details of all terms and conditions of that document. All statements herein relating to such documents are qualified in their entirety by the text of the applicable documents. Copies of the Application, the MPACT Master Contract, the Rules, and other documents relating to the MPACT Program are available at the MPACT Office address above.

Those persons who are not considering the purchase of a Contract during the 2011 Enrollment Period may gain an understanding of the MPACT Program by reading this Disclosure Statement. However, persons desiring to purchase a Contract in a subsequent year should be aware that the terms and features of the MPACT Program, the Contract, and the documents relating thereto in any subsequent year may differ, even materially, from the terms and features described in this Disclosure Statement. Some or all of the terms and features of the MPACT Program described in this Disclosure Statement, at any time, may be materially changed or eliminated, and material additional terms, restrictions, or conditions may be included in the MPACT Program from time to time. The terms and features of the MPACT Program applicable to a subsequent year will govern that particular year's Contract.

### **Chapter 1: Overview**

The following descriptive overview of the MPACT Program is not intended to be an exhaustive or definitive description of its features. Each statement contained in this Disclosure Statement is subject to qualification in its entirety by the terms and conditions of each document comprising the Contract, the Rules, and other documents relating to the MPACT Program, and by the descriptions contained elsewhere in this Disclosure Statement.

To purchase a Contract, a Purchaser must file an Application with the State Treasurer. The Application will be accepted or denied based upon the conditions set forth in the Rules. If the Application is accepted, a Contract may be purchased for the benefit of a "Qualified Beneficiary," which, among other things, is defined as a person 18 years of age or younger who has been born at the time the Application is made and who meets certain residency and grade level requirements.

When a Purchaser's Application has been accepted and the full purchase price has been paid, the Trust Fund is contractually committed to pay the In-State Tuition and Mandatory Fees of the designated Beneficiary over a specified number of academic hours. The Contract may be used to pay In-State Tuition and Mandatory Fees at Mississippi public colleges and universities, at Out-of-State and Private Institutions, and in some instances, institutions outside the United States. However, the Contract only assures the payment of Tuition and Mandatory Fees over the specified number of academic periods based upon the cost of Tuition and Mandatory Fees at 2-year/4-year public institutions of higher learning in Mississippi. Amounts paid to any Private Institution may be less than the amounts paid to Mississippi public universities and colleges. Requests to apply funds to any institution that is not an eligible educational institution for purposes of Section 529 (defined below), will result in refunds of the Redemption Value of the Contract.

Neither MPACT nor the purchase of a Contract assures a Beneficiary of admission to, continued attendance at, or graduation from any college or university.

Assets of the Trust Fund, including amounts received from the sales of Contracts, may be invested only in accordance with the Board's statutory authorization in a broad variety of asset classes. No representation is made or guarantee given that investment returns will be sufficient to fulfill the payment obligations of the Trust Fund under the MPACT Program. However, the

obligations of the Trust Fund to pay benefits under each Contract are backed by the full faith and credit of the State of Mississippi.

In some instances the Beneficiary may not need or be able to use the benefits of the Contract or may voluntarily elect not to attend a college or university. In either case, the Purchaser may request a refund of Contract payments or name a qualifying Substitute Beneficiary subject to certain Program requirements. If a Beneficiary dies or becomes disabled, receives a scholarship, or attends a United States military academy, the Purchaser may receive a refund equal to the Current Tuition Value of the Contract. If the Beneficiary matriculates in institutions that are not eligible educational institutions for purposes of Section 529, or if the Beneficiary elects not to attend college or fails to qualify academically, the Purchaser may receive a refund of the Redemption Value of the Contract. The Current Tuition Value of the Contract is based upon current Tuition and Mandatory Fees at certain Mississippi public institutions; the Redemption Value is based upon amounts paid in and interest at the prevailing rates for banks and savings and loan associations, net of applicable Administrative Fees, which are described more fully in Section VIII of the Contract, and the Rules.

Purchasers should consider the tax consequences associated with the purchase of a Contract. MPACT is designed to constitute a "qualified tuition program" under Section 529 of the Internal Revenue Code of 1986, as amended ("Section

529" and the "Code", respectively). As such, the earnings portion of Contract payments used for Tuition and Mandatory Fees will not be includable in the Beneficiary's taxable income. In addition to income tax consequences, certain estate and gift tax consequences may result from the purchase of a Contract for a Beneficiary or from the transfer of a Contract. See "FEDERAL TAX CONSIDERATIONS." The tax information appearing in this Disclosure Statement is not intended to be exhaustive. Current and potential Purchasers are urged to seek the advice of their own attorney, accountant or financial consultant for specific tax advice.

Prospective Purchasers also should consider the impact of a Contract on the Beneficiary's ability to obtain certain federal aid. The receipt of benefits under a Contract may affect the Beneficiary's qualification for certain financial aid. See "FINANCIAL AID AND MEDICAID IMPLICATIONS."

## **Chapter 2: Summary of Risk Factors**

This Summary of Risk Factors is intended only to serve as an overview of certain of the more significant risks and other considerations associated with the MPACT Program. Purchasers should read the entire Disclosure Statement, the Contract, the Rules, and other documentation pertaining to the MPACT Program. Purchasers should not rely solely on this Summary as an exclusive source of information regarding the risks of participating in the MPACT Program. Current and potential Purchasers are urged to seek the advice of their own attorney, accountant, or financial consultant for specific advice concerning risks and other considerations associated with participation in the MPACT Program.

Risks associated with Contract cancellation or termination. The purchase of a Contract is necessarily a long-term investment because no benefits generally are paid until a Beneficiary enrolls in a college or university. If a Contract is cancelled or terminated, the Purchaser may request and receive a refund, the amount of which will depend upon the circumstances surrounding the cancellation or termination. Any current or prospective Purchaser concerned with liquidity should consider the risk of loss of earnings that might have been realized had he or she invested in another investment vehicle offering greater liquidity. Additionally, the Board, in its discretion, may pay any refund in installments, rather than in a lump sum. In that event, the total refund amount would not be immediately available to the Purchaser. If the refund is not used to pay Qualified Higher Education Expenses, then the earnings portion of the refund (if any) would be subject to federal income taxes and, in certain instances, an additional 10% federal penalty tax. The recipient of a non-qualified withdrawal is responsible for payment of applicable taxes.

Lack of Contract transferability. Purchasers have limited opportunities to transfer a Contract to a member of the Beneficiary's family, but any transfer would be subject to the Program's Rules and requirements. No representation is made or assurance given that a Purchaser will be able to transfer his or her Contract.

No assurance of admission to or graduation from Postsecondary Institutions. The obligations of the Trust Fund under the Contract in no way constitute a promise, commitment, or guarantee by the State Treasurer, the Board, or the State of Mississippi, or employees or consultants of the State Treasurer, the Board, or the State of Mississippi that a Beneficiary: (a) will be admitted to a Postsecondary Institution; (b) will be admitted to a particular Postsecondary Institution; (c) will be allowed to continue to attend a Postsecondary Institution after having been admitted; (d) will be graduated from a Postsecondary Institution; or (e) if admitted to a Postsecondary Institution, will meet that institution's residency requirements for In-State Tuition and/ or Mandatory Fees. If the Beneficiary is not admitted to a Postsecondary Institution for any reason, or fails to register for less than the maximum number of academic credit hours for which Contract benefits are payable for any reason, the Beneficiary likely will realize less than all of the Contract benefits for which he or she otherwise may have been eligible.

Limited substitutability of Beneficiaries. If the original Beneficiary or any successor Beneficiary under a Contract has not yet matriculated at a Postsecondary Institution or received any benefit under a Contract, the Purchaser may be eligible to substitute another Qualified Beneficiary according to the Rules. However, substitution of a Beneficiary whose Projected College Entrance Date is later than that of the current Beneficiary will not result in any refund of Contract payments or earnings realized by the Trust Fund in respect of such payments. In limited circumstances, a Purchaser may request substitution of a Beneficiary with a Projected College Entrance Date that is earlier than the Date of the current Beneficiary. In this instance, the Purchaser may be required to pay additional amounts based on actuarial calculations.

Modification or clarification of Trust Fund documents. Ordinarily, the Board will not retroactively modify or clarify existing Contracts in a manner adverse to the Purchaser or Beneficiary except to the extent necessary to assure compliance with applicable law or to preserve the tax

treatment of the Trust Fund or the interests of Purchasers or Beneficiaries therein. The Board may from time to time clarify the terms of particular Contracts as well as the application of those terms to specified circumstances through the promulgation of Rules or the modification of existing Rules, some of which may adversely affect the rights of Purchasers or Beneficiaries. The terms of new Contracts also may differ materially from existing Contracts; however, to the extent such differences are adverse to Purchasers or Beneficiaries, ordinarily they will apply only to new Contracts and not to existing ones, unless the application of such differences to existing Contracts is necessary to assure compliance with applicable law or to preserve the tax treatment of the Trust Fund or the tax treatment of interests of Purchasers or Beneficiaries therein.

No investment return beyond Contract performance. Under no circumstances will Purchasers or Beneficiaries be entitled to receive investment returns from the Trust Fund as a result of favorable Trust Fund investment performance in excess of Contract obligations. Any such favorable investment performance, if achieved by the Trust Fund, will enhance the likelihood that the Trust Fund's Contract obligation will be performed, but will not result in other direct or indirect benefits to Purchasers or Beneficiaries. Moreover, the Act under which the Trust Fund was established provides that the Board may designate a percentage of any Trust Fund monies in excess of the actuarially determined obligations of the Trust Fund to serve as a contingency fund. A Purchaser or Beneficiary of an MPACT Contract may not directly or indirectly direct the investments of their contributions to the Program.

Inherent uncertainty of actuarial projections. The Board has engaged the assistance of actuarial experts to project the ability of the Trust Fund to meet its obligations and to assist the Board in establishing the pricing for Contracts each year. In this regard, various actuarial assumptions are employed to evaluate the assets and liabilities of the Trust Fund. Because actuarial determinations necessarily involve predictions regarding future events, no assurance can be given that such assumptions will prove to be accurate or that the Trust Fund will be able to satisfy its future obligations, despite the indication of current actuarial evaluations that the assets of the Trust Fund should be sufficient to satisfy the Trust Fund's future obligations. The State has agreed to meet the obligations of the Board to Beneficiaries if monies in the Trust Fund fail to meet the obligations of the Board.

Limited ability to increase the price of future Contracts. To a limited degree, the Trust Fund may correct temporary actuarial shortfalls in a given year by increasing the price of future Contracts. At some point, however, increasing the price of future Contracts is likely to reduce the public demand for such Contracts, which could prevent the Trust Fund from offsetting future actuarial shortfalls (if any should occur) by increasing the price of new Contracts. There can be no assurance that demand for new Contracts will continue at consistent levels in the future.

### **Chapter 3: The Trust Fund**

By enactment of the Mississippi Prepaid Affordable College Tuition Program, Title 37, Chapter 155-1 through 125 (the "Act"), the Mississippi Legislature created the Trust Fund as an agency and instrumentality of the State of Mississippi. The purpose of the Act is to advance and improve higher education in the State by assisting qualified students in financing a portion of their costs of attending State colleges and universities. This purpose is fulfilled by encouraging

the prepayment of tuition costs through the purchase of affordable Prepaid Tuition Contracts. The Prepaid Tuition Contracts create an obligation of the Trust Fund to pay a Contract Beneficiary's In-State Tuition and Mandatory Fees over a specified number of academic hours. The Trust Fund's obligations to Beneficiaries or others are backed by the full faith and credit of the State of Mississippi.

3.01 Management of the Trust Fund - The Board of Directors of the College Savings Plans of Mississippi Trust Fund consists of the following members: (A) Nine (9) voting members as follows: the State Treasurer, the Commissioner of Higher Education, the Executive Director of the Community and Junior College Board, Department of Finance and Administration Executive Director and one (1) member from each congressional district as designated in 1996, appointed by the Governor with the advice and consent of the Senate. On the expiration of any of said terms of office, the Governor shall appoint successors by and with the advice and consent of the Senate for terms of five (5) years in each case. (B) Two (2) nonvoting, advisory members of the Board are appointed by each of the following officers: the Lieutenant Governor and the Speaker of the House of Representatives. Successors to the appointed members shall serve for the length of the term for each appointing official and shall be eligible for reappointment, and shall serve until a successor is appointed. Any person appointed to fill a vacancy on the board shall be appointed in a like manner and shall serve for only the unexpired term.

Each trustee appointed shall possess knowledge, skill and experience in business or financial matters commensurate with the duties and responsibilities of the Trust Fund. Members of the Board of Directors shall serve without compensation, but are entitled to reimbursement for each day's official duties of the Board at the same per diem and actual travel and lodging expenses as are paid to State of Mississippi employees. The names of the current members of the College Savings Plans of Mississippi Board of Directors are listed in the MPACT Enrollment Booklet.

The Board engages and relies upon the advice of investment consultants, investment managers, custodians, actuarial experts, attorneys, accountants, and other experts in managing, administering, and formulating investment policies for the Trust Fund. Day-to-day administration of the MPACT Program is conducted through the State Treasurer's Office.

3.02 Powers of the Board - Under the Act, the Board, or its authorized agent, is authorized to contract for the lump sum or installment prepayment of tuition costs for the benefit of a Qualified Beneficiary. The Board is directed to obtain actuarial assistance to project the ability of the Trust Fund to meet its obligations and to determine Contract pricing based on actuarial calculations which employ various assumptions. Pursuant to this authority, the Trust Fund has engaged an independent actuarial firm to render certain accounting and actuarial services to the Trust Fund. Based upon the actuarial valuation, the Board may adjust the price of subsequent Contracts to adjust for actuarial shortfalls. The Board also may impose Actuarial Assessments to compensate the Trust Fund for loss of earnings if a Purchaser makes any payment after its due date.

The payments received from Contract Purchasers are deposited in the Trust Fund, and the Trust Fund's assets are invested by the Board as authorized in the Act. The amounts received may be invested only in instruments, obligations, securities and properties that are deemed appropriate by the Board and that constitute legal investments pursuant to the Act. The Trust Fund's assets are subject to market factors and fluctuations affecting their value. To assist with the investment of Trust Fund assets, the Board has engaged the services of both an investment consultant and various investment managers.

In addition to the foregoing powers, the Board is entitled (A) to adopt rules and regulations necessary to implement the provisions of the law, (B) to impose reasonable limitations on the number of Contract participants in the Trust Fund at any given time, (C) to impose reasonable time limits on the use of Contract benefits and (D) to impose residency requirements at the time of the purchase of a Contract for qualification as a Qualified Beneficiary.

As soon as practicable following the completion of each fiscal year of the Trust Fund, the Board makes available summary information on the financial condition of the Trust Fund to all Purchasers of Contracts. In addition, the Board prepares an annual accounting of the Trust Fund and transmits a copy of the same to the Governor, the Lieutenant Governor, and the Speaker of the State House of Representatives. The Board also makes all necessary and appropriate administrative arrangements with Mississippi colleges and universities in order to facilitate the performance of its obligations under the Contracts.

The description of the powers herein contained is not intended to be a comprehensive or exhaustive list of the powers of the Board, but is merely illustrative of such powers. Reference must be made in each instance to the Act, the Application, the MPACT Master Contract, and other documents relating to the MPACT Program for a comprehensive statement of the Board's powers in any particular instance. As such, any statement regarding any power of the Board is qualified in its entirety by the terms of the Act, the Rules, and the terms of each such other document relating to the MPACT Program.

- 3.03 Selected Financial Information - The Trust Fund's fiscal year begins on July 1 of each year and ends on June 30 of the following year. In each fiscal year, an independent audit firm issues an unqualified audit opinion on the financial statements of the MPACT Program stating that "such financial statements present fairly, in all material respects, the financial position of the Mississippi Prepaid Affordable College Tuition Program, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America." Copies of the audited financial statements are available upon request.
- 3.04 Summary of Key Actuarial Assumptions - Funding of the MPACT Program is derived entirely from Contract payments and the investment income earned by the Trust Fund. The Trust Fund's projected amount of future Contract obligations is determined by calculating expected future Mississippi Tuition and Mandatory Fee costs based upon current costs and certain assumptions regarding future periods. Similarly, the Trust Fund's

projected assets are determined by calculating expected future assets based upon the actual current value of the Trust Fund's assets and various assumptions regarding future events, such as future rate of return. The projected obligations are then compared with the projected asset values to determine if a funding deficit is anticipated.

This comparison, along with estimating the additional obligations created by future sales of Contracts, is then used to determine the purchase price of new Contracts for a particular Enrollment Period.

The projections and valuations are based on various actuarial assumptions including, among others (A) projected investment return, (B) rate of tuition increases, (C) rate of Contract cancellations or withdrawals, (D) utilization rates of credit hours, (E) timing regarding payment of tuition, and (F) allocation of enrollment between universities and community colleges. Because the actuarial valuation process relies on such assumptions, actual results may defer, even materially, from the projected results based on those actuarial assumptions. No representation is made or assurance given that future investment returns will be sufficient for the Trust Fund to satisfy its current or future obligations. If a funding shortfall occurs for any reason, the State shall meet the Contract obligations of the Board to the Beneficiaries.

3.05 Investment Policies - The Board is charged with the responsibility for investing the assets of the Trust Fund. Consistent with the Trust's purpose of providing Contracts at a price that reflects current In-State Tuition and Mandatory Fees at Mississippi's Public Postsecondary Institutions, the Board has approved written investment policies with the overall objective of earning a return on monies received from the sale of Contracts that is greater than the tuition costs and Mandatory Fee increases at Mississippi's Public Postsecondary Institutions.

3.06 UTMA/UGMA Accounts - Under the Mississippi Uniform Transfer to Minors Act, a person may make an irrevocable transfer to a minor beneficiary, and the transferor retains control of transferred custodial property, subject to the standard of care under UTMA, until the minor beneficiary attains age of majority. MPACT will accept UTMA funds, or funds under other state's laws (sometimes referred to as Uniform Gifts to Minors Act, "UGMA" Accounts), for purchase of an MPACT Contract. UTMA/UGMA accounts generally involve additional restrictions and obligations that do not apply to other MPACT Contracts. If you are considering using the proceeds from a UTMA/UGMA account for such purchase, you should consult your legal advisor to determine if applicable state law permits use of UTMA/UGMA accounts for this purpose and to discuss your ongoing responsibilities under UTMA/ UGMA following purchase of an MPACT Contract.

UTMA accounts are subject to the following additional requirements and restrictions: (A) The custodian may not change the Beneficiary of a Contract (directly or by means of a Rollover Distribution); (B) The custodian may not change ownership of the Contract to anyone other than a successor custodian or the Beneficiary without providing MPACT with a court order directing the change; (C) The custodian will be required to notify MPACT



when the Beneficiary is legally entitled to take control of the Contract. At that time, the Beneficiary will be able to conduct the same transactions as non-UTMA Purchasers; and (D) The custodian may make a non-qualified withdrawal only in accordance with the UTMA rules, which may require that any withdrawal of funds is necessary for the benefit of the Beneficiary.

MPACT shall not be liable to any Purchaser, Beneficiary, or third party for any breach or violation of applicable UTMA/UGMA law, nor shall MPACT be responsible for, or obligated to ascertain whether, any directions given to MPACT by the Purchaser comply with UTMA/UGMA. Compliance with UTMA/UGMA is solely the responsibility of the Purchaser. MPACT strongly urges those considering using UTMA funds for purchase of an MPACT Contract to review these matters and properly assess your legal obligations and your Beneficiary's rights under UTMA/UGMA law.

#### **Chapter 4: Securities Considerations**

The Board has received an opinion from legal counsel regarding the MPACT Program's status under federal securities laws. Counsel concluded that: (1) The Contracts may be offered and sold under the Program without compliance with the registration requirements of the Securities Act of 1933 or the qualification provisions of the Trust Indenture Act of 1939, as amended; (2) Any Board member, other officer or employee of the Fund who engages in the offer or sale of the Contracts in the course of his or her official duties as a Board member, other officer or employee of the Fund will not be deemed to be a "broker" (including "municipal securities broker") as defined in the Securities Exchange Act of 1934, as amended (the "Exchange Act"), solely by reason of such activity; and (3) The Fund will not be deemed to be a "dealer" (including a "municipal securities dealer") as defined in the Exchange Act, solely by reason of offering, selling and issuing the Contracts.

#### **Chapter 5: Tax Considerations**

This section provides a summary of the federal tax considerations related to the treatment of contributions to and withdrawals from the MPACT Program. The information is included for general information only and is not offered as individual tax advice nor is it intended to be used and cannot be used by any taxpayer for the purpose of avoiding federal tax penalties. Due to the possibility that a Purchaser or Beneficiary could be taxed under the tax laws of a state other than Mississippi, no representation is made as to the taxation of Purchaser or Beneficiary under any other state law. A Purchaser or a Beneficiary should consult his or her professional tax advisor regarding his or her individual federal or state tax situation.

5.01 Federal Income Tax Consequences - Contributions to qualified tuition programs created pursuant to Section 529 of the Code are not deductible for federal income tax purposes nor will they result in taxable income to a Beneficiary. Under Section 529, if the MPACT Contract is used for Qualified Higher Education Expenses – including Tuition and Mandatory Fees for purposes of MPACT – the increase in the value of the Contract is not subject to federal income tax. While it is not clear in the Temporary Regulations governing Section 529, the Internal Revenue Service may require that Qualified Higher Education Expenses be paid in the same taxable year as a Qualified Withdrawal is taken.

If a refund from a Contract is not used for Qualified Higher Education Expenses, then the Purchaser would owe federal tax on the earnings portion of the refund in the year the refund is processed. Additionally, the earnings portion of the refund could be subject to an additional 10% federal penalty tax. The Purchaser or the person receiving the non-qualified refund would be responsible for the income tax and the additional federal penalty tax.

For purposes of determining whether a withdrawal from a qualified tuition program is federally tax-exempt, the following rules apply. Withdrawals may not be used for the same expenses for which a Hope or Lifetime Learning Credit is claimed. If withdrawals from a qualified tuition program and from a Coverdell Education Savings Account ("Coverdell ESA") exceed the Beneficiary's Qualified Higher Education Expenses for the year (after reduction for amounts used in claiming the Hope and Lifetime Learning Credits), then the Beneficiary will be required to allocate the expenses between the withdrawals to determine the amount of withdrawals from the qualified tuition program that were used for Qualified Higher Education Expenses.

Under Section 529, Purchasers may transfer funds from one Section 529 plan to another for the same Beneficiary once every twelve months without incurring federal income tax or penalty. Transfers between prepaid tuition and savings plans maintained by the same state are included in this provision. You may also transfer funds from a Coverdell ESA to a 529 plan, but the investment value must be reduced by the amount of untaxed earnings in the Coverdell ESA roll-over. Series EE U.S. Savings bonds may be redeemed and the proceeds used to purchase an MPACT Contract without any federal income tax on the redemption. The tax basis in the MPACT Contract will be reduced by the gain not recognized at redemption.

5.02 Estate and Gift Tax Considerations - Contributions to the MPACT Program are generally considered completed gifts for federal tax purposes and therefore are potentially subject to federal gift tax. Generally, if a Purchaser's payments on a Contract for a Beneficiary, together with all other gifts by the Purchaser to the Beneficiary, are less than the current annual exclusion of \$13,000 per year (\$26,000 for married couples), no federal gift tax will be imposed on the Purchaser for gifts to the Beneficiary during that year. This annual exclusion amount is indexed for inflation in \$1,000 increments and may therefore increase in future years. If a Purchaser's payments on a Contract for a Beneficiary in a single year exceed \$13,000 (\$26,000 for married couples), the Purchaser may elect to treat up to \$65,000 of the payment (\$130,000 in the case of a married couple) as having been made ratably over a five-year period. (For purposes of determining the amount of gifts made by the Purchaser to that Beneficiary in the four-year period following the year of contribution, the Purchaser will have to take into account the ratable portion of the Contract payment allocated to that year.)

5.03 State Tax Considerations - Contributions made to a Contract are fully deductible from Mississippi taxable income. Contributors are permitted to take a deduction for contributions made no later than the time prescribed by federal law for filing the tax

return for the taxable year. Earnings on Contract payments for Qualified Higher Education Expenses generally will not be subject to Mississippi income tax until payments are made pursuant to the Contract. The earnings portion of a non-qualified withdrawal will be taxable to a Mississippi resident recipient of the withdrawal. The contribution portion of a non-qualified withdrawal that was previously deducted for Mississippi income tax purposes will be included in the resident recipient's Mississippi gross income.

## **Chapter 6: Financial Aid and Medicaid Implications**

The eligibility of the Beneficiary for financial aid will depend upon the circumstances of the Beneficiary's family at the time the Beneficiary enrolls in college, as well as on the policies of the governmental agencies, colleges, or private organizations to which the Beneficiary and/or the Beneficiary's family applies for financial assistance. Because a Contract will increase the financial resources available to the Beneficiary, it most likely will have some effect on the Beneficiary's financial aid eligibility. However, because these policies vary at different institutions and can change over time, the Board cannot say with certainty how the federal financial aid program, or the school the Beneficiary applies to, will treat the MPACT Contract. Under Mississippi law assets in the MPACT Program shall not be considered an asset of the Purchaser or the Beneficiary for purposes of determining eligibility for a need-based grant, need-based scholarship or need-based work opportunity offered or administered by any State agency except as may be required by the funding source of such financial aid.

The receipt of Contract benefits should not impact the Beneficiary's qualification for merit-based financial aid (i.e., academic or athletic scholarships, for example). There can be no assurance, however, that the Contract benefits will not be considered either explicitly or implicitly in determining whether a Beneficiary is entitled to or will receive a merit-based scholarship. The Purchaser should contact the financial aid office at the Beneficiary's Postsecondary Institution or another financial aid advisor for information on financial aid award procedures.

The eligibility of a Purchaser or a Beneficiary for Medicaid assistance could be impacted by an MPACT Contract. Although the result is not clear and may vary from state to state, it is possible that the assets in a Contract may be considered a countable resource for determining Medicaid assistance eligibility. Medicaid laws and regulations may change and Purchasers should consult their own financial and/or tax advisors for advice on their own particular situation.

## **Section 7: Federal Creditor Protection**

The Federal Bankruptcy Code provides protection in federal bankruptcy proceedings for Section 529 obligations such as MPACT Contracts. Generally, payments on behalf of an MPACT Contract will be protected depending on the timing of the payments. Contract contributions or payments made at least 720 days prior to the federal bankruptcy filing are protected. Contract payments made less than 720 days but more than 365 days prior to a federal bankruptcy filing will be protected up to \$5,475. Contract payments made within 365 days of a federal bankruptcy filing are not protected.

## Chapter 8: Privacy Notice

Safeguarding personal information is something the MPACT Program takes very seriously. We respect your right to privacy and recognize the Program's obligation to keep information about you secure and confidential.

The MPACT Program collects nonpublic personal information about Contract Purchasers and Beneficiaries from information received from Applications and other forms and information about Contract Purchaser transactions. The term "nonpublic personal information" means personal information about you which identifies you, and that is not available from public sources.

No nonpublic personal information from any source is disclosed to anyone outside of the Office of the Treasurer of the State of Mississippi, colleges and universities, and our Records Administration Contractor unless: proper authorization or direction from you to do so has been received, it is required by law (such as the Mississippi Public Records Act of 1983), or, it is necessary to do so in order to enable service providers to perform work on behalf of the Program.

Personal information provided to the Program is not sold or bartered. We restrict access to your personal and account information to those employees who need to know that information to provide products or services to you. MPACT maintains physical, electronic and procedural safeguards to guard your nonpublic personal information.

When visiting the MPACT Program web site, you can go to pages that are open to the general public. If you provide personal information in order to receive materials about the MPACT Program, such information will be used for that purpose only.

IN ACCORDANCE WITH SECTION 37-155-25 OF THE MISSISSIPPI CODE, THE STATE OF MISSISSIPPI HAS AGREED TO MEET THE OBLIGATIONS OF THE BOARD TO THE BENEFICIARIES IF MONIES IN THE TRUST FUND FAIL TO OFFSET THE OBLIGATIONS OF THE BOARD.



*Lynn Fitch*  
STATE TREASURER  
COLLEGE SAVINGS MISSISSIPPI  
| MPACT |