**SUPPLEMENT DATED DECEMBER 2025 TO TEXAS TUITION PROMISE FUND[SM] PLAN DESCRIPTION AND MASTER AGREEMENT DATED FEBRUARY 2024**

**This supplement describes important changes to the Texas Tuition Promise Fund[SM] Plan Description and Master Trust Agreement dated February 2024 (the "Plan Description"). Terms defined in the Plan Description have the same meaning in this Supplement.**

## A. Elimination of the "sunset" provision in Section 529 of the Internal Revenue Code limiting qualified rollovers to ABLE programs to transfers made prior to January 1, 2026.

1. The HR. 1 Section 529 amendments permit purchasers to continue to make qualified rollovers from Section 529 qualified tuition programs to qualified ABLE programs after December 31. 2025. Therefore, all references in the Plan Description to the requirement that a qualified rollover to an ABLE program must be made before January 1, 2026 are deleted.

## B. Annual ABLE Contribution Limit increased to $20,000.

HR. 1 also made a change in the base year for the inflation adjustment calculation for the ABLE annual contribution limit. Effective January 1, 2026, the ABLE Plan contribution limit is $20,000. All references in the Plan Description to earlier years' limits are deleted.

## C. Annual Gift Tax Exclusion Increased.

1. The annual federal gift tax exclusion amount has increased to $19,000 ($38,000 for a married couple). A purchaser may prorate contributions exceeding the annual federal gift tax exclusion over five years up to $95,000 (single filer) and $190,000 (married couple electing to split gifts) if certain requirements are met. See the Tax Considerations section of the Plan Description for additional details. All other references in the Plan Description to gift tax limits are qualified by reference to the higher limits. Please contact a tax advisor to determine the effect of federal tax provisions on your situation.

## D. Estate Tax Exclusion Increased.

1. The Plan Description is amended by deleting the paragraph immediately below the heading "Federal Transfer Taxes" in Part 7: Tax Considerations.

2. The Plan Description is amended by deleting the "Estate Tax" section of Part 7: Tax Considerations and replacing it with the following:

**Estate Tax**
Generally, contributions to a qualified prepaid tuition program, such as the plan, are not includible in a purchaser's or other contributor's gross estate. If, however, the purchaser has elected the five-year averaging and dies before the end of the five-year period, the purchaser's gross estate will include the portion of the contributions allocable to periods following the purchaser's death. Further, the gross estate of the beneficiary would include amounts distributed from a qualified prepaid tuition program on account of the beneficiary's death. Like the federal gift tax, however, there is an exclusion available. For estates of decedents dying and gifts made after December 31, 2025, the lifetime unified credit applicable to estate tax and gift tax is $15 million, subject to inflation adjustments.

The IRS has not issued specific guidance on the recent federal law changes affecting qualified tuition programs, including the plan, or on the increase to the lifetime estate and gift tax credit. The purchaser will be responsible for any taxes or penalties resulting from failure to comply with Code §529, as amended, and any subsequent IRS rules or guidance.

**E. Bankruptcy Exclusions**

The paragraphs under the heading "Federal Law" on page 35 are deleted in their entirety and replaced with the following:

The Bankruptcy Code generally provides protection in federal proceedings for 529 plans if the beneficiary is the bankruptcy debtor's child, stepchild, grandchild, or step-grandchild, including through adoption or foster care, however you may have protections subject to the following limits:

- contributions made to an account for the same beneficiary at least 720 days before a federal bankruptcy filing are completely protected;
- contributions made to an account for the same beneficiary between 365 days and 720 days before a federal bankruptcy filing are protected up to an amount set by statute that varies; and
- contributions made to an account for the same beneficiary less than 365 days before a federal bankruptcy filing are not protected against creditor claims.

These limitations consider all 529 plans for the same beneficiary as if they were a single plan. Bankruptcy law is complex. This information is not meant to constitute individual tax or bankruptcy advice. You should consult with your own advisors concerning your individual circumstances.

TEXAS TUITION PROMISE FUND®

A Prepaid Plan as Smart as You Are

# Plan Description and Master Agreement

Effective Date of April 2024

**Texas Prepaid Higher Education Tuition Board**

Don Huffines, Texas Comptroller of Public Accounts, Austin, Texas

Orion Advisor Solutions, Inc., Plan Manager

DON HUFFINES
TEXAS COMPTROLLER OF PUBLIC ACCOUNTS

Orion

## ABOUT THIS PLAN DESCRIPTION

The Texas Tuition Promise Fund® is a 529 prepaid tuition plan. The Texas Prepaid Higher Education Tuition Board maintains and administers the plan. Orion Advisor Solutions, Inc. manages the plan. This Plan Description and Master Agreement has been amended and restated in its entirety, wholly replaces all prior publications, and contains important information you should know before participating in the plan, including information about qualifications for benefits, fees, expenses, and risks. Please read the information carefully before purchasing a contract and keep a copy for future reference.

### CONTRACTS NOT INSURED OR GUARANTEED

A contract could lose money, including the amount contributed. No part of a contract is a deposit or obligation of, or is guaranteed or insured by, the board, the state of Texas, or any agency or agent thereof. Plan contracts have not been registered with or approved by the U.S. Securities and Exchange Commission ("SEC") or with any state. Purchasers should carefully consider the objectives, risks, fees, charges, and expenses associated with the plan. The board may suspend, modify, or terminate the plan at any time and without the consent of purchasers or beneficiaries.

NEITHER CONTRACTS, NOR THIS PLAN DESCRIPTION, NOR THE MASTER AGREEMENT HAVE BEEN REGISTERED WITH OR APPROVED BY THE SEC OR WITH ANY STATE, AND NEITHER THE SEC NOR ANY STATE OR OTHER REGULATORY AUTHORITY HAS VERIFIED THE ACCURACY OR ADEQUACY OF THIS DISCLOSURE DOCUMENT OR ENDORSED THE MERITS OF THIS OFFERING.

### RESIDENCY CONSIDERATIONS

This Plan Description addresses only state-based benefits for Texas residents. Residents of other states should consider whether their or their beneficiary's home state offers its residents 529 plans that provide favorable state tax treatment or other state benefits such as financial aid, scholarship funds, and protection from creditors that may only be available through that state's plan. State-based benefits offered should only be one of many appropriately weighted factors considered in making a purchase decision. You should consult with your financial, tax, or legal advisor to learn more about how state-based benefits and limitations apply to your circumstances.

### NO FINANCIAL, TAX, OR LEGAL ADVICE

The state of Texas, the Texas Prepaid Higher Education Tuition Board, the Texas Tuition Promise Fund, and Orion Advisor Solutions, Inc. and their affiliates do not provide financial, tax, or legal advice. The information presented in this Plan Description does not contain financial, tax, legal, or investment advice and cannot be relied upon for such purposes. You should consult your financial, tax, or legal advisor to determine the impact of federal and state laws on your situation.

Statements contained in this Plan Description that involve estimates, forecasts, or matters of opinion, whether expressly stated or not, are intended solely as such and are not to be construed as representations of facts. The information and expressions of opinion herein are subject to change without notice. Neither delivery of this Plan Description, nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Texas Tuition Promise Fund since the date of this Plan Description.

## REPORTS TO PURCHASERS

Annual statements will be provided to purchasers to reflect the status of their contract as of December 31 of each year. Quarterly statements will be provided to purchasers to reflect any contract activity occurring during the quarter, which can also be viewed by establishing a login to your online account through the purchaser portal and accessing your contract information on the plan website at www.texastuitionpromisefund.com, or by calling 800-445-GRAD (4723), option 5. A purchaser has 60 days to notify the plan manager of any errors.

To prevent errors and protect participants, the plan uses reasonable procedures to confirm that transaction requests are genuine. The purchaser may be responsible for losses resulting from fraudulent or unauthorized instructions received by the plan manager, provided the plan manager reasonably believes the instructions were genuine. To safeguard your contract, please keep your contract information confidential. Contact the plan manager immediately if you believe there is a discrepancy between a transaction you performed and the confirmation statement you received. If you believe someone has obtained unauthorized access to your account, you are strongly encouraged to promptly contact the appropriate authorities.

## INFORMATION SUBJECT TO CHANGE

The information contained in this Plan Description and Master Agreement is believed to be accurate as of the date published and is subject to change without notice. No one is authorized to provide information that is different from the information contained in this Plan Description. In the event of any conflict, applicable law and regulations, including the Internal Revenue Code of 1986, as amended, the Texas Education Code, and the Texas Administrative Code, control over this Plan Description and Master Agreement.

## REQUIRED CONFIDENTIAL INFORMATION

Establishment of a contract to purchase tuition units is subject to acceptance by the plan manager. The plan manager will verify the purchaser's identity and other information in compliance with the applicable requirements of the USA PATRIOT Act and other laws. The application includes the purchaser's name, street address, Social Security number, and other identifying information. While all personal information will be treated as confidential, applicable law requires submission of this information to purchase a contract, and the purchaser may be required to provide confidential supporting documentation. The plan manager may also confirm a purchaser's identity using identity verification reports provided by consumer reporting agencies.

If a purchaser fails to provide the required information or provides inaccurate information, there may be a delay in processing the application or the application may be rejected. If the identification process cannot be completed, the plan manager may take certain actions without notice to the purchaser, including rejecting contributions and other transactions, suspending contract services, or canceling the contract. Any resulting risk or loss will be solely the purchaser's responsibility. The risks, tax implications, and any other expenses associated with cancellation of a contract under such circumstances will be solely the purchaser's responsibility.

## ADDITIONAL INFORMATION

The plan may make available on its website at www.texastuitionpromisefund.com financial information and operating data related to the plan, notices of the occurrence of certain events, and material updates to the plan, including changes to the plan manager and other advisors. Hard copies of these documents are available by calling 800-445-GRAD (4723), option 5. All plan documents should be considered together in connection with purchase of a contract in the plan. At your request, we will provide you, without charge, copies of the plan information.

## LINKS TO THIRD-PARTY WEBSITES

Links to third-party websites are provided for informational purposes. Neither the plan nor any other person or entity affiliated with, or performing services for the plan, make any representation as to the accuracy of the information contained on any third-party website. Website content and website addresses are subject to change and broken links.

THE TEXAS TUITION PROMISE FUND IS INTENDED TO BE USED ONLY TO PAY FOR QUALIFIED HIGHER EDUCATION EXPENSES AS DEFINED BY APPLICABLE LAW. THE TEXAS TUITION PROMISE FUND IS NOT INTENDED TO BE USED, AND SHOULD NOT BE USED, BY ANY TAXPAYER FOR THE PURPOSE OF EVADING FEDERAL OR STATE TAXES OR PENALTIES.

**Texas Tuition Promise Fund**
P.O. Box 44305
Jacksonville, Florida 32231-4305

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## PART 1: INTRODUCTION

The state of Texas created the Texas Prepaid Higher Education Tuition Board in 1995 to help Texas families save money for college. The board administers the state's education savings programs: the Texas Tuition Promise Fund, the Texas College Savings Plan® (a direct-sold 529 education savings plan), the LoneStar 529 Plan® (an advisor-sold 529 education savings plan), and the Texas Guaranteed Tuition Plan (a prepaid tuition plan also known as the Texas Tomorrow Fund® that is closed to new enrollment). These programs are designed to qualify for tax-favorable treatment under the Internal Revenue Code of 1986, as amended ("Code"), section 529 ("Code §529").

These other education savings plans administered by the board are not described in this Plan Description and may offer different options with different savings approaches and benefits and may be sold through financial professionals or directly to the public. These other plans may be marketed differently from this plan and may assess different fees and expenses compared to those assessed by this plan. More information about these plans is available at www.comptroller.texas.gov/programs/education or by calling 800-445-GRAD (4723).

The board is the plan administrator and establishes the governing rules, appoints the plan manager and other consultants, and oversees the actuarial soundness of the plan. The board reviews the plan's actuarial soundness at least annually and investment results at least quarterly. To ensure the financial viability of the plan, the board may temporarily suspend new enrollments, limit earnings paid with certain refunds, and/or adjust prepaid tuition contract terms.

Acting under the auspices of the board, Orion Advisor Solutions, Inc. ("Orion"), the current plan manager, tends to the day-to-day administrative operations. Catalis Regulatory and Compliance, LLC, a subcontractor of Orion, provides administrative, record keeping, customer service, fund accounting, and reporting services for the plan. Aon Investments USA, Inc. is the current investment consultant and advises the board on investment guidelines and asset allocations, recommends suitable investments and alternatives, and monitors investment performance. An independent certified public accounting firm audits the plan's financial statements each year.

### THE PLAN

The following is a summary of the plan and its features and is not intended as a substitute for reading the entirety of this Plan Description.

The plan permits you to lock in the cost of future undergraduate resident tuition and schoolwide required fees at any Texas public college or university (excluding medical or dental schools) at current prices. If your beneficiary chooses to attend a medical or dental school, career school, private college or university, or out-of-state college or university where the price is not locked in, you can apply the Transfer Value, discussed below in the section on Withdrawals, towards these costs. The full list of two- and four-year Texas public colleges and universities is available in the Tuition Unit Pricing Schedule and Unit Value Redemption Guide on the plan website at www.texastuitionpromisefund.com/tips-tools/forms-materials.

The plan is a prepaid tuition contract between the board and you, the purchaser, not an investment or savings account. Rather, the plan is a trust fund that pools your contributions with those from other purchasers and invests them to cover the plan's costs. The earnings generated on the plan's trust fund investments are intended to make up the difference between your contributions and the increase in future costs to be paid by the plan.

## CONTRIBUTIONS

*See PART 3: PURCHASING TUITION UNITS*

To participate in the plan, you must sign a contract agreeing to buy tuition units that represent a fixed amount of undergraduate tuition and schoolwide required fees at a Texas public college or university (except medical or dental schools) for your designated beneficiary. You can enter a contract by paying a one-time, non-refundable application fee of $25 and buying the minimum number of units required for your payment option. As the purchaser, you are the only person authorized to request redemptions, transfers, or refunds of these units. You must be at least 18 years of age to execute a contract. Your beneficiary, the individual who will be using the plan, must be a Texas resident or the child of a Texas resident who is also the purchaser.

Recognizing that tuition costs vary widely, the plan offers three types of tuition units, each based on a different type, or category, of tuition. The price of Type I units is based on the cost of undergraduate resident tuition and schoolwide required fees at the most expensive Texas public college or university. The price of Type II units is based on the weighted average of these costs at all four-year Texas public colleges and universities, and Type III units are priced based on the weighted average in-district tuition and schoolwide required fees at all two-year Texas public colleges.

The plan also offers several different payment options. Because the price and value of units is subject to adjustment annually, you can maximize your savings by making a one-time, lump sum payment for 25 or more Type I units (or 50 Type II or Type III units). If you want to lock in the price of units early, but maintain the flexibility of making payments over time, the plan also allows for installment contracts, with monthly or annual payments, which include interest, over five years, ten years, or the number of years remaining until your beneficiary's projected high school graduation date. If you prefer to buy units in smaller increments, you can select the "pay-as-you-go" option and purchase one unit of any type to establish the account, then make future purchases of additional units for payments as low as $15 at the then-current price.

While there can only be one beneficiary per contract, you can change the beneficiary of an existing contract as explained in the *Changing the Beneficiary of Your Contract* section.

Per beneficiary, there is a maximum purchase limit equal to the value of 600 Type I units and a contribution cap of $500,000, regardless of purchaser. The cap considers all 529 programs administered by Texas—the plan, the Texas Guaranteed Tuition Plan, the Texas College Savings Plan, and the LoneStar 529 Plan.

## WITHDRAWALS

*See PART 4: REDEEMING TUITION UNITS*

Tuition units can only be used to pay for "qualified expenses," undergraduate resident tuition and schoolwide required fees at a Texas public college or university (excluding medical and dental schools). Units cannot be used for other college expenses, such as room and board, textbooks, supplies, certain equipment, or special needs services required for attendance.

Regardless of how much you paid for the units, Texas public colleges and universities must accept the amount transferred to them by the plan as payment in full for the qualified expenses covered by the tuition units redeemed. This is the benefit of participating in the plan. Therefore, because the value of a Type I unit is equal to one percent of the annual cost for one academic year of qualified expenses at the most expensive Texas public college or university, 100 units can be redeemed for 30 undergraduate semester credit hours (one academic year) at the most expensive

Texas public college or university. 100 Type II units can be redeemed for one academic year of qualified expenses at the Texas public four-year college or university whose qualified expenses are at the weighted average cost of qualified expenses of all Texas public four-year colleges and universities. If a school charges more than that weighted average, you or your beneficiary will be responsible for the difference between the value of the units redeemed and the actual amount charged, or you can redeem more units to cover the difference. If the school charges less than that weighted average, fewer units will need to be redeemed.

If your beneficiary chooses to attend a medical or dental school, career school, Texas private college or university, out-of-state college or university, or registered apprenticeship program where the price is not locked in, you can apply the Transfer Value towards the cost of undergraduate tuition and schoolwide required fees. The "Transfer Value" of units is limited to the lesser of the: (1) cost the units would cover at a Texas public college or university; or (2) the original purchase price of the units plus or minus the plan's net investment earnings or losses on that amount.

Tuition units must be paid in full and held for three years prior to redemption, and your contract expires on the 10th anniversary of the date the beneficiary is projected to graduate from high school based on the beneficiary's age. The deadline will be accelerated if you use the contract to pay for dual enrollment by the beneficiary while still in high school or if your beneficiary enrolls in college early. The deadline can only be extended in the case of U.S. military service.

## REFUNDS

*See PART 5: REFUNDING TUITION UNITS*

If your beneficiary decides not to attend college, receives a scholarship, dies, or becomes disabled, you may request a refund. If the contract is terminated or canceled, a refund request will automatically be generated on your behalf. The availability of refunds is subject to certain limitations and the value of any refund approved depends on the circumstances.

You may also roll over the Transfer Value of your unused tuition units to a qualified 529 college savings plan, such as the Texas College Savings Plan, to be used to pay up to $10,000 in principal or interest on qualified student loans (under Code §221(d)) of your beneficiary and/or their sibling, or for tuition in connection with enrollment or attendance at an elementary or secondary public, private, or religious school up to $10,000 per year per beneficiary. This $10,000 limitation applies on a per-student basis, rather than a per-account basis, regardless of whether the funds are distributed from multiple 529 accounts. The tax consequences of using 529 plans for elementary or secondary education tuition expenses will vary depending on state law and may include recapture of tax deductions received from the original state as well as penalties.

## TAX CONSIDERATIONS

*See PART 7: TAX CONSIDERATIONS*

Generally, plan payments for qualified expenses are not subject to federal income tax and the earnings portion of qualified withdrawals is not considered "income" for federal tax purposes. However, if you were to use plan assets for any other purpose, any earnings would likely be subject to federal, and any applicable state, income tax as well as an additional tax of 10%. The state income tax consequences will vary by state, but there would be no impact in Texas because the state does not impose an income tax on individuals.

Contributions to the plan are generally considered to be a "gift" from you, the purchaser, to your beneficiary under the federal gift tax. For

2024, individuals are permitted to contribute $18,000 per year per beneficiary (or $36,000 for a married couple) free of tax. Alternatively, you may make a one-time contribution of $90,000 ($180,000 for married couples) using a special five-year election, subject to certain conditions.

## RISK FACTORS

*See PART 8: RISK FACTORS AND CONSIDERATIONS*

Participation in the plan involves certain financial and non-financial risks that you should consider before purchasing a contract.

Tuition unit prices and redemption values may be adjusted annually based on reporting to the board by Texas public colleges and universities to account for changes in the cost of undergraduate resident tuition and schoolwide required fees. Tuition units may not cover the complete cost of attending a particular school. Many factors can create a shortfall such as: (1) the school attended; (2) the type of tuition units redeemed; (3) the number of hours for which your beneficiary is enrolled; and (4) other costs not covered by the plan such as room and board, books, certain equipment, or fees that are not considered "schoolwide required fees." For example, as discussed above in the Withdrawals section, the costs at the school your beneficiary attends could be more than the value of the units you are redeeming. Similarly, redeeming Type III units at an out-of-district two-year college will likely create a deficit. Any additional costs are the responsibility of you or the beneficiary, not the plan.

Although you can use the Transfer Value of your units at a Texas private college or university, an out-of-state college or university, a medical, dental, or career school, or a registered apprenticeship program, tuition and fee rates are not locked in at those schools and the value of the units can be less than your original contributions if the plan has experienced losses. Likewise, the amount of any refund approved can be less than your contributions, particularly where there have been negative returns on plan investments. Also, no earnings may be paid with refunds if the board has determined it would adversely affect the actuarial soundness of the plan.

The eligibility of you and/or your beneficiary for federal, other state, or institutional benefits (e.g., financial aid or Medicare) could be affected by participation. Federal and state tax laws may change, altering or eliminating the benefits currently provided under the plan.

Finally, if the plan becomes financially infeasible, the board may suspend new enrollments, or modify or terminate the plan. Depending on the timing of these events, any refund you receive may be less than your original contributions.

## PART 2: PARTICIPATING IN THE PLAN

To begin participating in the plan, you must submit to the plan manager an application "in Good Order," meaning that it is accurate, legible, completed in full, and signed by the authorized signatory with any required supplemental information, documentation, or payment attached. All applications require you to pay a one-time, non-refundable application fee of $25 and purchase the minimum number of tuition units required for the payment option you select.

By signing the application, you acknowledge receipt of this Plan Description and Master Agreement and accept the terms and conditions of the Plan Description and Master Agreement.

### OWNERSHIP OF THE CONTRACT

There can only be one purchaser and one beneficiary of a contract at any time. As the purchaser, you are the only individual that can make decisions impacting the contract, such as deciding when and how tuition units are used, changing the beneficiary or purchaser, designating a successor purchaser, or canceling the contract. Plus, only you can request a rollover to another qualified 529 plan or Roth individual retirement account ("IRA"). Other individuals or entities can contribute to a contract, but only you will have control over how these contributions are used and only you will receive confirmation of transactions.

The plan will use the tuition units you and others purchase to pay for the qualified expenses (undergraduate resident tuition and schoolwide required fees) of your designated beneficiary. Your beneficiary can be any individual, including yourself, even if not related to you. Except for a state or local government or a tax-exempt organization described in Code §501(c)(3) (e.g., a "charity") as part of a scholarship program, this beneficiary must be identified when the contract is formed but can be changed later as explained in the *Changing the Beneficiary of Your Contract* section of this Plan Description.

Please note that if you cancel the contract, any rollovers, transfers, or refunds you make in winding down the arrangement will exclude any state-procured matching contributions, such as those under the Texas Match the Promise Foundation℠ (https://comptroller.texas.gov/programs/education/match), or related earnings.

RESIDENCY REQUIREMENTS

Any individual or qualified entity (trust, estate, custodian, guardian, partnership, association, company, or corporation) can be a purchaser. Entity purchasers must be domiciled in the United States or its territories (a "United States person" within the meaning of Code §7701(a)(30)), provide a valid taxpayer identification number, and designate the name and title of the person authorized to act on the entity's behalf. Local governments and tax-exempt organizations described in Code §501(c)(3) are not required to name a beneficiary at the time the contract is established in the case of scholarship programs operated by such entities.

For individuals, any U.S. citizen or legal resident 18 years of age or older can execute (i.e., purchase) a contract, so long as the beneficiary is a Texas resident, or if the beneficiary is not a Texas resident, the purchaser (you) must be the beneficiary's parent, a U.S. citizen or legal resident, and a resident of Texas. These requirements must be met when the contract is established and any time there is a change of beneficiary or purchaser.

### ENROLLMENT PERIODS

Each year, the board sets an annual open enrollment period that typically begins on September 1 and ends on the last day of February the following year. The first payment is due May 1 after the enrollment period ends, except for a contract purchased for a newborn beneficiary.

NEWBORN ENROLLMENT

Newborns, infants under one year of age on the date of enrollment, are eligible to be enrolled as beneficiaries through July 31 each year. You can purchase tuition units for a newborn at the sales prices offered during the most recent enrollment period even if it is closed to others if the plan manager receives a completed application in Good Order by July 31. Applications for newborns received after July 31 will not be processed unless postmarked by July 31.

CHANGES TO THE ENROLLMENT PERIOD

The plan as described in this Plan Description may change. The board makes no representation, guarantee, or assurance that additional enrollment periods will be offered, or that enrollment periods will take place annually, although this is the expectation. Further, the board may limit the number of contracts or tuition units purchased in any enrollment period, which could restrict or prohibit the purchase of additional units under certain payment options.

## CHANGING THE PURCHASER OF YOUR CONTRACT

Under Texas law, a purchaser cannot sell a plan contract. You can, however, transfer ownership of your rights under the contract to another person who meets the criteria described in the *Residency Requirements* section above if certain conditions are met:

- The transfer must be irrevocable and requested in writing in a form acceptable to the board and plan manager;
- all rights, title, interest, and power over the contract must be conveyed;
- you, as the original purchaser, may not receive any financial consideration or gain in exchange for the transfer; and
- no federal or state law or regulation prohibits the transfer.

Complete, in Good Order, a Change of Purchaser Form (available on the plan website at www.texastuitionpromisefund.com/tips-tools/forms-materials) to effectuate a transfer of ownership rights in a contract under the plan. You should consult a qualified tax advisor before taking any action because there may be tax consequences associated with a transfer of ownership.

TRANSFER OF OWNERSHIP ON DEATH

You may designate a successor purchaser who will have the right of survivorship or otherwise assume your ownership rights and responsibilities under the contract in the event of your death. You can designate a successor purchaser on the original application when you enroll or you can add or change a successor purchaser designation by completing an Account Maintenance Form (available at www.texastuitionpromisefund.com/tips-tools/forms-materials) afterwards. On your death, the successor purchaser will become the owner of the contract once he or she has submitted to the plan a Change of Purchaser Form, in Good Order, together with a death certificate, and the plan manager has reviewed, approved, and processed the documentation.

If you do not complete the successor purchaser information, ownership of the contract will pass according to the terms of your will or by operation of law. Transfer of ownership rights under these circumstances may require costly probate or administrative action. As the purchaser, you have sole responsibility for maintaining up-to-date successor information.

TRANSFER OF OWNERSHIP ON DIVORCE

Where a parent is the purchaser of a plan contract, the marital estate in a divorce includes that contract as an asset. This contract, and any tuition units associated with it (whether contributed by the purchaser or a third-party), are not the child's (the beneficiary's) property and the parent (the purchaser/owner) owes no fiduciary

duty to the child. Therefore, it is critical that the divorce decree in such cases award ownership of the contract to one parent, rather than simply control over the contract. In fact, an order from the court declaring that a parent has sole and exclusive control or is a custodian of the contract could inadvertently create a trust, which could complicate the effectuation of any future contract transactions.

To properly transfer ownership of the contract in such cases, a valid divorce decree, or valid order modifying a divorce decree, that awards ownership of the contract must be presented to the plan manager. Given the complexities involved when assigning ownership of a contract in a divorce, it is recommended that you consult your attorney.

## CHANGING THE BENEFICIARY OF YOUR CONTRACT

With certain exceptions, you may change the beneficiary of a contract. To avoid the transfer being considered a non-qualified withdrawal subject to federal income tax and an additional tax of 10%, the new beneficiary must be a Member of the Family of the existing beneficiary, which under Code §529 includes: the beneficiary's spouse; child, whether by blood or adoption, or a child's descendant; sibling, half-sibling, or step-sibling; parent or parent's ancestor; stepparent; nephew or niece; uncle or aunt; son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law; the spouse of any individual described; or a first cousin of the beneficiary.

Purchasers may change the beneficiary of a contract by submitting a Change of Beneficiary Form (available at www.texastuitionpromisefund.com/tips-tools/forms-materials), in Good Order, to the plan manager. As discussed in the *Residency Requirements* section above, your new beneficiary must be a Texas resident or the child of a parent who is both a Texas resident and the purchaser at the time of the change.

There are no fees for a change of beneficiary and there are no tax penalties associated with a change of beneficiary that complies with Code §529. However, a change of beneficiary might have significant gift tax or generation-skipping transfer tax consequences. As a result, you should consult with your tax advisor prior to making any beneficiary change to your contract. Also see *PART 7: TAX CONSIDERATIONS* for a more detailed discussion.

### IMPACT ON INSTALLMENT PLANS

For contracts purchased under an installment plan, changing the beneficiary will result in recalculation of your monthly or annual payments based on the projected high school graduation date of the new beneficiary. If the resulting installment period is longer or shorter than the original, your payment will be adjusted accordingly.

## SPECIAL RULES FOR UGMA/UTMA CUSTODIAL ACCOUNTS

The custodian of an account opened under a state's Uniform Gifts to Minors Act ("UGMA") or Uniform Transfers to Minors Act ("UTMA") may be able to purchase a contract in his or her custodial capacity. When using UGMA/UTMA account funds to purchase a contract, the custodian must submit, in Good Order, a UGMA/UTMA Form (available at www.texastuitionpromisefund.com/tips-tools/forms-materials) along with the application.

The plan would consider the custodian to be the purchaser and owner of the contract until the beneficiary reaches the age of majority, even though the beneficiary would be the owner under most UGMA/UTMA laws. While the beneficiary becomes the purchaser with sole control over the contract on reaching the age of majority under the applicable UGMA/UTMA laws, the plan must be notified by either the beneficiary or custodian and provided with the necessary documentation for this change to be recognized.

Contracts purchased by UGMA/UTMA custodians involve additional restrictions that do not apply to contracts purchased by others. Generally, these include:

- During the term of the custodianship, the owner of the contract cannot be changed to anyone other than a successor for the benefit of the same beneficiary;
- The custodian is not permitted to change the beneficiary;
- The custodian can redeem tuition units and apply for refunds only for the benefit of the beneficiary and in accordance with the rules under applicable UGMA/UTMA laws; and
- Either the custodian or the beneficiary must notify the plan when the custodianship ends and the beneficiary has taken legal ownership of the contract. At that time, the beneficiary will be considered the purchaser of the contract and will be treated the same as any other purchaser. Contact the plan manager to determine what information to submit to document the termination of the custodianship.

Because only checks, money orders, or automated clearing house ("ACH") transfers may be used to purchase tuition units, if non-cash assets held by a UGMA/UTMA account are needed for the purchase, those assets would need to be liquidated, resulting in potential adverse tax consequences to the beneficiary. Consequently, custodians should consider the tax consequences of using a UGMA/UTMA account to participate in the plan. Please consult a tax or legal professional to determine whether and how to transfer assets of an existing UGMA/UTMA account, and what the implications of such a transfer might be for your specific situation. The board and the plan manager will not be liable for any consequences stemming from a custodian's improper use, transfer, or characterization of custodial funds.

## PART 3: PURCHASING TUITION UNITS

Tuition unit prices are set by the board annually prior to the beginning of each enrollment period, generally September 1. Sales prices are based on the actual cost of qualified expenses (undergraduate resident tuition and schoolwide required fees) for each upcoming academic year based on information provided to the board by all Texas public institutions. A "Texas public institution" includes all Texas four-year public colleges and universities, Texas two-year public colleges, and Texas public technical institutes; medical and dental schools are excluded. There is no premium or other uplift in the pricing, except for the interest charge on installment contracts. For more on what is considered a "schoolwide required fee," please see the introduction to *PART 4: REDEEMING TUITION UNITS*.

The price of a Type I Tuition Unit is set at one percent of the qualified expenses for one academic year, or 30 semester credit hours, at the Texas public institution with the highest cost that year. Thus, 100 Type I units are intended to pay for 30 semester credit hours, or one academic year, of qualified expenses at the most expensive four-year Texas public institution your beneficiary attends. Fewer units would be required for 30 semester credit hours if your beneficiary attends a Texas public institution that is not the most expensive in the year of redemption.

The price for a Type II Tuition Unit is set at one percent of the weighted average cost of qualified expenses for one academic year at all four-year Texas public institutions. The "weighted average" is calculated by: (1) multiplying the average amount of each program's qualified expenses for 30 semester credit hours by the number of full-time equivalent undergraduate, resident students in the program; and (2) dividing the sum of those amounts by the total number of full-time equivalent undergraduate, resident students at all four-year Texas public institutions. A Type II unit can be used at the same schools as a Type I unit but can only be redeemed for one percent of the weighted average cost, at the time of redemption, of qualified expenses.

The actual percentage of costs covered by Type II units at the time of redemption will depend on whether the qualified expenses at the school your beneficiary chooses to attend are above or below the weighted average. For example, if the school your beneficiary selects is at the weighted average cost of qualified expenses of all four-year Texas public institutions in the year of redemption, redeeming 100 Type II units will pay for 30 semester credit hours (one academic year) of their qualified expenses. Yet, if tuition rates at your beneficiary's school are higher than this weighted average cost, you will need to redeem more than 100 units. Any cost of qualified expenses exceeding the weighted average must be paid by you or the beneficiary or you can redeem additional tuition units to pay for the difference. If the school your beneficiary attends is below this weighted average, fewer than 100 Type II units would need to be redeemed.

The price of a Type III Tuition Unit is one percent of the weighted average cost for one academic year of in-district qualified expenses at all two-year Texas public institutions. In this case, the "weighted average" is calculated by: (1) multiplying the average amount of each school program's in-district qualified expenses for 30 semester credit hours by the total number of full-time equivalent resident, in-district students in the school program; and (2) dividing the sum of those amounts by the total number of full-time equivalent undergraduate, resident students at all two-year Texas public institutions. As with Type II units, the number of units you will need to redeem to pay for 30 semester credit hours will depend on whether the costs of the two-year Texas public institution your beneficiary attends are above or below this weighted average cost at

the time of redemption. This also assumes that your beneficiary lives in the school's taxing jurisdiction; any additional amounts charged for out-of-district residents by a junior college, or other costs not paid by the plan, are the responsibility of you or your beneficiary.

Pricing schedules currently in effect for all tuition units types are contained in each Texas Tuition Promise Fund enrollment kit, posted on the plan website (www.texastuitionpromisefund.com/tips-tools/forms-materials), and are available by calling our toll-free number 800-445-GRAD (4723), option 5. Texas may make future changes to the types of units offered by the plan, or cease offering one or more types of units. The pricing guide and calculator on our website can also show you examples of the current number of tuition units needed for redemption at Texas public institutions to assist you in planning your purchases more effectively.

## PAYMENT OPTIONS

You can pay for tuition units using one of three methods. The non-refundable application fee of $25 must be paid regardless of the option chosen.

### LUMP SUM PAYMENTS

You can make a one-time payment for the purchase of 25 or more Type I Tuition Units (or 50 or more Type II or III units) at the sales price in effect when the payment is made. This option results in the lowest possible price for the units in the year of purchase.

### PAY-AS-YOU-GO

For more flexibility to purchase units over time, you can purchase any number of tuition units whenever you choose at the sales price in effect at the time the payment is received by the plan. Because tuition unit prices are set annually by the board, however, the price per unit may increase over time. At least one tuition unit must be purchased to establish a pay-as-you-go contract. Additional purchases under the pay-as-you-go option may be as little as $15.

### INSTALLMENT PLANS

You can also purchase a specific number of tuition units with monthly or annual installment payments. As with lump sum payments, the minimum purchase under an installment plan is 25 Type I units (or 50 Type II or Type III units). This option locks in the price per unit at the time the installment plan is established and includes an annual interest component that may result in higher total costs over time. Payments can be made over five years, ten years, or extended to the number of years remaining until your beneficiary's projected high school graduation date.

Payment amounts are fixed at the time of purchase and will not change unless you change your beneficiary. See the *Changing the Beneficiary of Your Contract* section for more information. The current payment amount for each type of tuition unit purchased under an installment plan can be found in the Academic Year Tuition Unit Pricing Schedule and Unit Value Redemption Guide available at www.texastuitionpromisefund.com/tips-tools/forms-materials or on the calculator available on our website at www.texastuitionpromisefund.com/calculator.

Installment and lump sum payment plans are subject to cancellation or downgrade by the plan manager in the event of delinquency or default, or they may be converted to pay-as-you-go contracts. All tuition units must be paid in full to be redeemed and are subject to a three-year holding period described more fully in the *Limitations on Contributions* section.

## PAYMENT METHODS

Contributions to a contract must be in "cash form," meaning by check, money order, electronic funds transfer ("EFT"), automatic payments, payroll deduction if your employer allows, or federal

money wire. Credit cards and securities will not be accepted, and cash should never be mailed. Third-party checks will be accepted at the plan manager's discretion.

CHECKS

If you make installment plan payments by check, you will receive a coupon book prior to the May 1 deadline, which contains payment slips to use each time you make a payment. If you select the pay-as-you-go option and opt to make payments by check, you will not receive a coupon book. Instead, you will receive a payment voucher prior to the first payment due date of May 1, and each time you make a payment, you will receive a new payment voucher with your payment confirmation.

ELECTRONIC FUNDS TRANSFER

To make a purchase using a one-time electronic funds transfer ("EFT") through the automated clearing house, you must indicate the amount of the contribution and submit a voided bank check or savings account deposit slip. EFTs may also be initiated online through the purchaser login at www.texastuitionpromisefund.com.

AUTOMATIC PAYMENT

You may authorize the plan to make contributions to your contract by performing periodic, automated payments from a checking or savings account. To securely initiate automatic payments, a purchaser can complete the Automatic Payments page online through the purchaser portal at www.texastuitionpromisefund.com, under the Financials tab.

Recurring contributions under the pay-as-you-go option must be at least $15 per month. An authorization to execute these contributions will remain in effect until the plan manager has received notification of its termination. Changes to, or termination of, automatic payments must occur at least five business days before the cycle date, the day the automated transaction occurs. The cycle date defaults to the 1st business day of each month.

PAYROLL DEDUCTION

You may be eligible to make periodic contributions to your pay-as-you-go or installment contract by payroll deduction if your employer allows. Contributions by payroll deduction will only be permitted for employers able to meet the plan's operational and administrative requirements. Both you and your employer must submit forms, in Good Order, to establish payroll deduction contributions. Forms are available on the plan website at www.texastuitionpromisefund.com/tips-tools/forms-materials, or by calling 800-445-GRAD (4723), option 5.

## CHANGES TO THE NUMBER OF UNITS PURCHASED

You may amend your contract after the initial purchase by increasing ("upgrading") or decreasing ("downgrading") the number of tuition units you want to purchase, or you can change the payment option. Some restrictions may apply, including whether the specified change can occur outside the normal enrollment period.

UPGRADES

Upgrading a plan contract means you agree to purchase additional tuition units beyond your original commitment. Any additional tuition units purchased must still adhere to the plan limitations discussed in the *Limitations on Contributions* section.

You can purchase additional tuition units for a pay-as-you-go contract at any time. However, you can purchase additional tuition units under a lump sum contract only during the initial enrollment period. If additional units are purchased outside the initial enrollment period, your lump sum contract will be converted to a pay-as-you-go contract. In either case, the additional

units may be purchased at the sales price in effect at the time the payment is received by the plan. The holding period will be measured from the date each additional unit is purchased.

Additional tuition units can be added to an existing installment plan contract during the same enrollment period the contract was established at the same sales price (through August 31). Adding units during a later enrollment period can only be done by executing a new contract at the then-current sales price and interest rate. The holding period for these "additional" units, as discussed in the *Limitations on Redemptions* section, will be based on the first payment due date for those units. See the *Limitations on Contributions* section below for information on additional restrictions.

### DOWNGRADES

By downgrading a contract, you agree to purchase fewer tuition units or a less costly type of unit than originally specified. You may downgrade a contract at any time so long as you have not used any of the units to be downgraded by submitting a signed, written request to the plan manager. If the tuition units in the initial contract were paid-in-full or the amount paid exceeds the cost of the downgraded contract, you may request a refund. See *PART 5: REFUNDING TUITION UNITS* to see how refunds are calculated.

## ROLLOVER CONTRIBUTIONS

Rollover contributions to your plan account can be made either directly or indirectly and must be accompanied by the appropriate form and other required documentation. A direct rollover involves a trustee-to-trustee transfer of funds (e.g., State A's 529 plan transfers funds to your Texas 529 plan). Yet not all 529 plans permit the direct rollover of funds. In those cases, you would need to make an indirect transfer by withdrawing the money from the contributing 529 plan and depositing those funds in your Texas plan account within 60 days of the withdrawal from the contributing plan. You should be aware that there may be federal, state, and/or other tax consequences on the withdrawal from the contributing plan. Further, a statement issued by the contributing plan that shows the earnings portion of such rollover must be provided to the plan manager or the entire contribution to your Texas plan may be considered earnings subject to income tax. You should consult with your tax advisor prior to such transfer. See *PART 7: TAX CONSIDERATIONS* for more information.

### ROLLOVERS FROM A DIFFERENT BENEFICIARY

Where the contributing 529 plan and your Texas plan have different beneficiaries, your beneficiary must be a Member of the Family of the contributing plan beneficiary and the funds must be deposited into your plan account within 60 days of the distribution from the transferring account. If your beneficiary is not a Member of the Family of the transferring beneficiary, or the rollover contribution is not completed within 60 days, this may be considered a non-qualified withdrawal subject to federal income tax on any earnings plus a 10% additional tax. See the *Changing the Beneficiary of Your Contract* section for more information about the Member of the Family requirement.

### ROLLOVERS FROM THE SAME BENEFICIARY

Rollovers from one Texas 529 plan to another Texas 529 plan for the same beneficiary are not treated as rollovers, but as nontaxable reallocations. There is a twice per calendar-year limit on such reallocations. You should note that this limit considers all Texas 529 plans with the same owner and the same beneficiary as a single account.

Rollovers between 529 plans in different states for the same beneficiary are not subject to federal income tax or the additional 10% tax

so long as the transaction is completed within 60 days of the withdrawal from the contributing plan and takes place no more than once every rolling 12 months. You should consult with your tax or financial advisor prior to any rollover to determine the application to your specific circumstances.

### COVERDELL ESAS AND SERIES EE/I BONDS

Tax-free transfers into your Texas plan contract may also come from a Coverdell Education Savings Account ("ESA") or in connection with the redemption of Series EE or Series I Bonds. An account statement issued by the financial institution that acted as custodian of the Coverdell ESA showing basis and earnings needs to be submitted to the plan manager. Similarly, an account statement or IRS Form 1099-INT issued by the financial institution that processed the bond redemption showing the amount of interest must be submitted to the plan manager. Failure to submit these documents may cause the entire amount transferred to be subject to income tax. Again, you are responsible for any taxes owed and should consult a qualified tax or financial advisor prior to any such transfers.

## THIRD-PARTY CONTRIBUTIONS

Anyone, including the beneficiary, can make contributions to a contract you have established. However, only you, the purchaser, has control over the contract and how the contributions are used. No matter how much anyone else contributes, only you can redeem tuition units, request and obtain refunds, change the beneficiary or purchaser, designate a successor purchaser, or make other contract changes. In addition, third-party contributors may have gift or other tax consequences. See *PART 7: TAX CONSIDERATIONS* for more information.

## LIMITATIONS ON CONTRIBUTIONS

Tuition unit purchases are subject to two separate limitations: the Prepaid Unit Maximum Amount and the Maximum Texas Program Contribution Limit.

### PREPAID UNIT MAXIMUM AMOUNT

The maximum value of tuition units that may be purchased for any beneficiary, regardless of purchaser, is currently the equivalent of 600 Type I Tuition Units (the "Prepaid Unit Maximum Amount"). Tuition unit purchases or transfers will not be accepted if the purchase would result in the beneficiary exceeding this Prepaid Unit Maximum Amount. Because unit values are adjusted annually, the value of 600 Type I Tuition Units also changes annually. Please see the Academic Year Tuition Unit Pricing Schedule and Unit Value Redemption Guide on the plan website (at www.texastuitionpromisefund.com/tips-tools/forms-materials) to determine the current maximum number of each unit type that can be purchased.

### MAXIMUM TEXAS PROGRAM CONTRIBUTION LIMIT

Additional contributions to your plan will also be rejected if it would cause the aggregate contribution balance of all Texas 529 accounts for your beneficiary to exceed the Maximum Texas Program Contribution Limit, which is currently $500,000. This limit considers accounts established for a beneficiary in all 529 programs administered by Texas—the plan, the Texas Guaranteed Tuition Plan, the Texas College Savings Plan, and the LoneStar 529 Plan—regardless of purchaser. The board sets and may amend the Maximum Texas Program Contribution Limit at any time without prior notice.

## EXCESS CONTRIBUTIONS

The plan manager will not knowingly accept and will ultimately reject any contribution, rollover, or transfer that would exceed either the Prepaid Unit Maximum Amount or the Maximum Texas Program Contribution Limit ("excess contribution"). Contributions will be used to purchase tuition units up to the applicable limits, and the remainder will be refunded to the contributor. Please be aware that any earnings included on a refund of excess contributions could be treated as a non-qualified withdrawal subject to federal income tax and the additional 10% tax.

## PART 4: REDEEMING TUITION UNITS

Tuition units can only be used to pay for qualified expenses—undergraduate tuition and schoolwide required fees. For these purposes, "schoolwide required fees" are those imposed on all students as a condition of enrollment. Examples of fees that are not covered include course-related fees (such as laboratory fees), fees related to a major or year of study (such as freshman advisor fees), optional fees, graduate fees, deposits, or costs associated with dropped classes. Although a school might use the label "required fee," the fee must meet the definition above to be paid for with tuition units.

Tuition units cannot be redeemed for graduate school or for other types of higher education expenses, such as room and board, textbooks, supplies and equipment, and special needs services (even if required for attendance). While you cannot use tuition units to pay those costs, they may be covered by a 529 college savings plan.

### REDEMPTIONS WITHIN THE PLAN

Tuition units can only be redeemed within the plan at a Texas public institution—a Texas four-year public college or university, a Texas two-year public college, or a Texas public technical institution (excluding medical and dental schools). To verify if tuition units could be used at the school your beneficiary is considering, you can find a list of all Texas public institutions in the Academic Year Tuition Unit Pricing Schedule and Unit Value Redemption Guide available on the plan website at www.texastuitionpromisefund.com/tips-tools/forms-materials/.

Generally, 100 Type I Tuition Units will pay for qualified expenses for one academic year, or 30 semester credit hours, at the most expensive Texas public institution. Thus, 400 Type I Tuition Units should pay for the qualified expenses for an undergraduate degree at any Texas public institution (assuming four years, or 120 credit hours, are necessary to complete the graduation requirements). If your beneficiary takes more than 120 semester credit hours, more tuition units would need to be redeemed or you or the beneficiary will be responsible for paying the additional costs. If your beneficiary's school is not the most expensive at the time of redemption, fewer Type I units would be needed to pay for your beneficiary's qualified expenses.

100 Type II Tuition Units are designed to pay the qualified expenses for 30 semester credit hours, one academic year, at the four-year Texas public institution whose qualified expenses equal the weighted average for all Texas four-year public institutions in that year. As with Type I Units, if your beneficiary takes more than 30 semester credit hours in an academic year, more Type II tuition units will need to be redeemed or the additional costs will be the responsibility of you or your beneficiary. If qualified expenses at the school your beneficiary attends are above the weighted average, more than 100 units will need to be redeemed for 30 semester credit hours and if your beneficiary attends a Texas public institution with qualified expenses below the weighted average, fewer than 100 units would be needed for 30 hours. For a detailed discussion of how the weighted average is computed, please see the introduction to *PART 3: PURCHASING TUITION UNITS*.

Similarly, 100 Type III Tuition Units should pay for in-district qualified expenses for one academic year at the two-year Texas public institution whose qualified expenses are at the weighted average for all two-year Texas public institutions. Again, if your beneficiary takes more than 30 semester credit hours in an academic year, more than 100 tuition units will need to be redeemed that year or you or the beneficiary will be responsible for the additional costs. And, if the school your beneficiary attends has qualified expenses above the weighted average, more than 100 units

will need to be redeemed to pay for 30 semester credit hours (if the qualified expenses are below the weighted average, fewer than 100 units would be needed for 30 semester credit hours). Finally, if your beneficiary does not live in the taxing jurisdiction of the two-year Texas public institution they are attending, the additional costs imposed on out-of-districts students will be the responsibility of you or your beneficiary.

| Tuition Unit | What One Tuition Unit Buys | Based On Institution Type |
|---|---|---|
| **Type I** | 1% of qualified expenses for an academic year (30 semester credit hours) at the school with the highest qualified expenses | Texas four-year public colleges and universities |
| **Type II** | 1% of qualified expenses for an academic year (30 semester credit hours) at the school with qualified expenses at the weighted average | Texas four-year public colleges and universities |
| **Type III** | 1% of in-district qualified expenses for an academic year (30 semester credit hours) at the school with qualified expenses at the weighted average | Texas two-year public colleges |

Please be aware that tuition unit redemption values are subject to change each year, which can impact the number of units that will need to be redeemed. Assume, for example, in the year of purchase, School X's qualified expenses are at the weighted average for four-year Texas public institutions and requires 120 semester credit hours for your beneficiary's degree. So, 400 Type II Tuition Units might be purchased with the intent of paying for your beneficiary's qualified expenses. If School X's qualified expenses are still at the weighted average in the year of redemption, 100 units would pay for the first year of qualified expenses as intended, despite any increase in tuition and fee rates over time (non-qualified expenses must be paid for out of pocket). However, if School X's qualified expenses are above the weighted average in the year of redemption, more than 100 units would need to be redeemed.

You will not designate a college or university at enrollment; this will not be done until your beneficiary is ready to use the units for college. All tuition unit types can be redeemed at all Texas public institutions. Therefore, you can redeem Type I units at a two-year Texas public institution, and you can redeem Type III units at a four-year Texas public institution. Yet, as described above, the redemption value of a Type III unit used at a four-year school would be significantly less than a Type I or Type II unit and more Type III units would need to be redeemed for an academic year.

Texas public institutions must accept the amount paid by the plan as payment in full for the beneficiary's undergraduate resident tuition and schoolwide required fees for the number of semester credit hours covered by the units. Texas public institutions must waive any difference in actual cost and the amount paid by the plan for these qualified expenses.

## TRANSFERS OUTSIDE THE PLAN

If your beneficiary decides to go to a Texas medical or dental school, out-of-state college or university, Texas private college or university, eligible career school, or registered apprenticeship program, the value of each unit is set at the Transfer Value. Transfer Value is the lesser of: (1) the costs the tuition unit would cover at a Texas public institution; or (2) the purchase price of the tuition unit adjusted for the plan's

net investment earnings or losses. Transfer Value does not include any state-provided or procured matching contributions or any earnings on state-provided or procured matching contributions, such as those from the Texas Match the Promise Foundation. Information about the Texas Match the Promise Foundation is available at http://www.matchthepromise.org/.

It is important to recognize that costs might be higher at a private university or other institution and your tuition units therefore might not cover your total tuition and schoolwide required fees. The amount of undergraduate tuition and required fees you might have to pay out of pocket when redeeming tuition units will depend on the Transfer Value of your units at the time and the cost at the school or program your beneficiary chooses. Any amounts beyond what the Transfer Value of your units covers are the responsibility of you or your beneficiary.

## LIMITATIONS ON REDEMPTIONS

Tuition unit redemptions are subject to two limitations: a three-year holding period and the ten-year expiration date.

### HOLDING PERIOD

You may not use any tuition unit before the third anniversary of its purchase date. For units purchased with a lump sum or under an installment plan, the purchase date is considered the first payment due date. For pay-as-you-go purchases, the purchase date is the first payment due date for initial purchases and the payment receipt date for subsequent purchases.

Please remember that tuition units must also be paid in full prior to use. If an installment plan payment period extends past the date of college enrollment, the payment schedule may be accelerated, or you may make a lump sum payment.

### EXPIRATION DATE

You have up to ten years after your beneficiary's projected date of high school graduation to use all tuition units under the plan. This is a statutory requirement under state law and is not subject to revision by either the board or the plan. Only proof of time spent by the beneficiary in active U.S. military service during the life of the plan contract can extend the period during which units can be used. The ten-year deadline will be accelerated if you use the contract to pay for dual enrollment for your beneficiary while they are still attending high school.

Any active contracts that reach the ten-year expiration date will be automatically canceled and any unused units will be refunded. See *PART 5: REFUNDING TUITION UNITS* for more information about how such a refund would be computed.

## REDEMPTION PROCESS

Subject to the restrictions discussed in the *Limitations on Redemptions* section below, tuition units can be redeemed online through the plan website at www.texastuitionpromisefund.com (via the purchaser login) or by completing and submitting, in Good Order, the appropriate form (available on the plan website at www.texastuitionpromisefund.com/tips-tools/forms-materials):

- The Benefits Authorization Form authorizes redemptions of tuition units within the plan at a Texas public institution; or
- The Transfer Value Payment Authorization Form authorizes the redemption of tuition units for transfer to out-of-state institutions, Texas private colleges and universities, career schools, medical or dental schools, and registered apprenticeship programs.

More detailed information about redeeming tuition units can be found in the Student Handbook available on the plan website at www.texastuitionpromisefund.com/tips-tools/forms-materials.

## ROLLOVER WITHDRAWALS

As the purchaser, you may transfer or roll over the Transfer Value of tuition units under your contract, either directly or indirectly, to another 529 plan. A rollover withdrawal must be accompanied by the appropriate form as well as any documentation required by the receiving plan. While these rollovers can often be achieved without the imposition of federal income tax or the additional 10% tax, some cases, especially indirect transfers, may have substantial tax consequences. Therefore, it is highly advised that you consult with your tax advisor prior to initiating any rollover transaction. Also see *PART 7: TAX CONSIDERATIONS* for information on the potential implications.

### ROLLOVERS TO A DIFFERENT BENEFICIARY

A transfer or rollover contribution to a 529 plan for a different beneficiary can occur without the imposition of federal income tax on the earnings or the additional 10% tax. To qualify, the new beneficiary must be a Member of the Family of the current beneficiary for the transferring contract and the contribution must be deposited into the new plan account within 60 days of the withdrawal. If the new beneficiary is not a Member of the Family of the current beneficiary, or the rollover contribution is not made within 60 days of the withdrawal date, the transaction may be treated as a non-qualified withdrawal subject to federal income tax, and possibly state income tax for non-Texans, plus the 10% additional tax. The rollover may also have gift or other tax consequences for the beneficiary of the transferring contract.

See the *Changing the Beneficiary of Your Contract* section for more information about the Member of the Family requirement.

### ROLLOVERS TO THE SAME BENEFICIARY

As discussed in the *Rollover Contributions* section, transfers between two Texas 529 plans for the same beneficiary are treated as nontaxable reallocations, rather than rollovers. There is a twice-per-calendar-year limit on such reallocations, which considers all Texas 529 plans with the same owner and the same beneficiary.

Rollovers between 529 plans in two different states for the same beneficiary can also be made tax-free if the transaction is completed within 60 days of the withdrawal date and takes place no more than once every rolling 12 months. You should always consult with your tax advisor prior to any transfer between plans.

### ROLLOVERS TO AN ABLE PROGRAM

Under Code §529(c)(3), you may also roll over 529 plan funds, including the Transfer Value of tuition units under your contract, to a qualified Achieving a Better Life Experience ("ABLE") program account for the same beneficiary, or a Member of the Family, within 60 days of the withdrawal. For these purposes, the Code §529(e)(2) definition of a Member of the Family applies, as discussed in more detail in the *Changing the Beneficiary of Your Contract* section. The beneficiary must meet ABLE eligibility requirements.

All contributions made to an ABLE account for a taxable year, including any rollover amounts, cannot exceed the annual ABLE contribution limit ($18,000 for 2024). The Treasury Department and Internal Revenue Service ("IRS," or the "Service") have stated that, in the case of a direct transfer, any rejected contribution returned to a 529 plan would not be treated as a new contribution to that account.

Rollovers from a 529 plan to a qualified ABLE program account only receive favorable tax treatment through December 31, 2025, unless extended by law. Please consult your tax advisor for more information.

ROLLOVERS TO A ROTH IRA

Beginning January 1, 2024, you may also roll over 529 plan funds, including the Transfer Value of tuition units under your contract, to a Roth IRA for the same beneficiary subject to certain conditions as discussed in more detail in *PART 7: TAX CONSIDERATIONS*.

## ACCOUNT ADMINISTRATION

If your beneficiary graduates and you still have tuition units available under your contract, you can change the beneficiary as described in the *Changing the Beneficiary of Your Contract* section or you may request a refund as described in *PART 5: REFUNDING TUITION UNITS*. Any refund issued will likely be considered a non-qualified withdrawal subject to federal income tax as well as an additional 10% tax and, for non-Texas residents, applicable state income taxes.

In light of the potential tax consequences, it is always advisable to obtain and retain records, receipts, invoices, and/or other documentation adequate to clearly show the IRS, as applicable: (1) the qualified expenses covered by the redemption of tuition units; (2) the qualified expenses you or your beneficiary paid out-of-pocket; (3) the receipt by your beneficiary of a qualified scholarship; (4) the appointment of the beneficiary to a U.S. military academy; (5) the death or qualified disability of your beneficiary; or (6) that you are otherwise entitled to favorable tax treatment. This list is not comprehensive, and you should discuss your retention of records with a qualified tax advisor to ensure you preserve all necessary documentation.

## PART 5: REFUNDING TUITION UNITS

As the purchaser of a contract, you may request a refund of tuition units under certain circumstances and subject to the limitations discussed in this section.

All refund requests must be made in writing and must include your signature. In addition, your request must meet the provisions of Code §529, Chapter 54 of the Texas Education Code, the rules applicable to the plan under 34 Tex. Admin. Code §§7.121-7.145, and the provisions of this Plan Description and Master Agreement. Approved refunds are typically paid within seven to ten business days after the plan manager has received the appropriate form (available at www.texastuitionpromisefund.com/tips-tools/forms-materials), in Good Order. The completed form may be submitted online at access.texastuitionpromise.com, by logging into your account and selecting Documents/Upload Documents, or by mail to Texas Tuition Promise Fund, P.O. Box 44305, Jacksonville, FL 32231-4305.

Please note that any refund may have income and gift tax consequences. *See PART 7: TAX CONSIDERATIONS* for more information. You should consult your tax advisor prior to requesting any refund.

### REFUND AMOUNTS

Refund amounts are computed based on the reason for the request and the duration the tuition units have been held. Generally, the refund of tuition units that meet the three-year holding period requirement are calculated at the Refund Value. Those that do not meet this condition would be computed at the Reduced Refund Value.

Any outstanding fees imposed by the plan will be subtracted from the amount to be refunded. Neither Refund Value nor the Reduced Refund Value include the application fee or state-provided matching contributions or earnings on state-provided matching contributions, such as those from the Texas Match the Promise Foundation. Information about the Texas Match the Promise Foundation is available at http://www.matchthepromise.org/. Earnings, if any, stop accruing on the business day that a refund is processed by the plan manager.

#### REFUND VALUE

The "Refund Value" of tuition units is defined as an amount equal to the total purchase price paid for any unused tuition units, plus or minus the adjusted net earnings (or losses) on contributions made to purchase those units. In this context, "adjusted net earnings" is a rate set by the board that can be up to 2% less than the actual net investment returns for the plan but can never exceed 5%. Even absent these restrictions, if the plan has suffered losses, your Refund Value may be less than your original contributions. Earnings will only be included with a refund if the board determines that the payment will not adversely affect the actuarial soundness of the plan. The Refund Value of tuition units cannot, however, be less than the Reduced Refund Value.

#### REDUCED REFUND VALUE

The "Reduced Refund Value" of tuition units is defined as an amount equal to the total purchase price paid for any unused tuition units, less net losses (but not earnings) on plan assets attributable to that amount. As with the Refund Value, the Reduced Refund Value can be less than the amount originally paid for tuition units if, at the time of the refund, there have been periods of negative returns on plan investments.

### SCHOLARSHIP, DEATH, OR DISABILITY OF BENEFICIARY

If you redeem fewer tuition units to pay for qualified expenses (undergraduate resident tuition and schoolwide required fees) than anticipated because your beneficiary received a full or partial scholarship, or because of the death or disability

of your beneficiary, you may apply for the Refund Value of the unused tuition units, regardless of when the units were purchased. For tuition units that remain unused for other reasons, the general refund rule would apply. Therefore, unused units that have been held for the three-year holding period would be granted the Refund Value, while those that do not meet the holding period requirement would be limited to the Reduced Refund Value.

## DEFAULT, MISREPRESENTATION, OR FAILURE TO PROVIDE INFORMATION

In cases where your contract is canceled for default, misrepresentation, or failure to provide required information, you may apply for a refund only at the Reduced Refund Value. A default occurs if a payment is not received within 90 days of the due date. A default may be cured by paying all delinquent amounts and any fees imposed within 120 days of the default date. An installment plan contract that is not cured within 120 days after default may also be converted to a pay-as-you-go contract.

## EXPIRATION OF TUITION UNITS

If any tuition units remain unused at the expiration date, your contract will be automatically terminated, and a refund will be submitted for processing at the Refund Value. Net earnings and losses stop accruing as of the expiration date. Remember, earnings can only be included if the board determines that the payment will not adversely affect the actuarial soundness of the plan.

## PLAN TERMINATION

If the plan is terminated, contract benefits will continue to be provided for those beneficiaries enrolled or expected to enroll at a higher education institution within three years of the termination date. If your beneficiary is not projected to graduate from high school within three years, you are permitted a refund at the Refund Value. Refunds received because of a plan termination may result in a non-qualified withdrawal for which tax and penalties may be assessed unless the balance is transferred or rolled over to another qualified tuition program.

| | **You will receive…** | |
|---|---|---|
| **If the following occurs…** | Reduced Refund Value | Refund Value |
| **Voluntary Refund -** Before three-year Holding Period requirement is met | X | |
| **Voluntary Refund -** After three-year Holding Period requirement is met | | X |
| **Scholarship, Death or Disability of Beneficiary** | | X |
| **Default** | X | |
| **Automatic Termination of Expired Tuition Units -** 10 years after projected date of beneficiary's graduation from high school | | X |
| **Plan Termination** | | X |

## LIMITATIONS ON REFUNDS

New contracts can be canceled for a return of the amount paid, less the non-refundable application fee, any time before the end of the initial enrollment period. Plan earnings, however, will not be paid on contracts established and canceled within the same enrollment period. As the purchaser, you are limited to two voluntary refunds in any rolling 12-month period.

No refunds will be provided once tuition units have been redeemed and the plan pays the invoice to a school on your beneficiary's behalf. Under these circumstances, any refund available would strictly be a matter between your beneficiary and his or her school.

Any refund to you or your beneficiary from a school may be treated as a refund from your 529 plan that could have tax consequences. Recontributing these amounts to the contract account within 60 days of the date of the school refund may alleviate these concerns. See *PART 7: TAX CONSIDERATIONS* for a more complete discussion.

## PART 6: PLAN FEES AND EXPENSES

There is a one-time application fee, not to exceed $25 per purchaser-beneficiary combination, to enroll in the plan, which must be submitted with your application form or at the time of online enrollment. There are fees for late or returned payments and there may be fees associated with wires, overnight deliveries, and other purchaser-initiated requests. However, you will pay no annual management fees, commissions, or sales charges.

### FEES CHARGED TO THE PLAN

Your contract is not an investment—it is the prepayment of future undergraduate tuition and schoolwide required fees at Texas public colleges and universities (excluding medical and dental schools) on behalf of your beneficiary.

Your contributions are pooled with those of other purchasers in the plan and invested according to the plan's Investment Policy Statement with a goal of maintaining the actuarial soundness of the plan to meet its payment obligations. The percentage of plan assets that are invested will vary over time because of market performance and will be rebalanced at least quarterly to help maintain the plan's target asset allocation under its Investment Policy Statement. Contract purchasers do not have a beneficial interest in the funds, instruments, or other assets held by the plan, and therefore, do not have the rights of a shareholder or owner of the plan's investment portfolio.

The plan itself is subject to certain underlying fees on its investments, which are subtracted from the returns of the plan portfolio to calculate adjusted net earnings or losses and could impact Refund Value, Reduced Refund Value, and Transfer Value. The plan manager charges a fee of 0.535% against the plan's assets for management of the plan and the state charges an administrative fee of 0.0575% against plan assets to cover administration of the plan. Because the plan is not an investment, however, none of these fees paid by the plan impact the redemption value of your tuition units when used within the plan at a Texas public college or university. The fees will impact out-of-plan transfers such as refund, rollovers, and the application of the Transfer Value.

### OTHER FEES AND CHARGES

The board or plan manager, in its sole discretion, will establish, and may change at any time, the fees and expenses it deems appropriate for the plan. The chart below describes current service-based and other fees that you may incur. If you request delivery of a refund by overnight delivery service, outgoing wire or, if available, electronic payment, the applicable fee listed in the chart below will be deducted directly from the amount issued. Fees and expenses like those identified in the table below may also be charged. All fees and other charges are subject to change without notice.

| Type of Fee | Fee |
|---|---|
| Application Fee | $25.00 |
| Non-Sufficient Funds Fee | $20.00 |
| Late Payment Fee | $15.00 |

## PART 7: TAX CONSIDERATIONS

The following section is a summary of certain aspects of federal and state income tax and estate and gift taxation of contributions to and withdrawals from 529 plans. Any tax and/or legal information in this Plan Description is an overview of our understanding and interpretation of the current tax rules and guidance based on relevant provisions of the Code, proposed regulations, notices, rulings, legislative history, and interpretations of applicable law. The information provided is not intended to be exhaustive and may be subject to change based on any changes in laws, regulations, and/or interpretations. Further, for the purpose of this discussion, a "withdrawal" from the plan speaks to a redemption, refund, or other use of tuition units available under your contract. Finally, because the proposed federal regulations do not reflect changes subsequently made to Code §529 or changes to published guidance from the IRS, it is likely that the final regulations, when and if issued, may differ from the proposed regulations.

This summary and all other statements in this Plan Description concerning federal and state tax issues: (1) are not offered as individual tax advice to any person (including any purchaser or beneficiary); (2) are provided as general information in connection with the promotion or marketing of the plan; and (3) are not provided or intended to be used, and cannot be used, by any taxpayer for the purpose of avoiding U.S. tax penalties.

It is your or your beneficiary's responsibility to calculate and pay any applicable taxes; the plan cannot make this determination for you. In addition, while Texas does not have a state income tax, if you are a resident of another state, it is your responsibility to consider whether transactions under your contract could subject you to taxes in your state of residence. You should consult a qualified tax, financial, and/or legal advisor for advice and information about your situation.

### FEDERAL INCOME AND ADDITIONAL TAXES

Your contributions to the plan are post tax and not deductible for federal income tax purposes, and any earnings are generally not subject to federal income tax until realized. Further, so long as any redemptions, refunds, or other withdrawals are used to pay for qualified higher education expenses (a "qualified withdrawal"), earnings, such as the amount you save by prepaying tuition costs, are not includible in your "gross income." If you use the proceeds from a withdrawal for any other purpose (what is known as a "non-qualified withdrawal"), you will likely be subject to federal income tax plus an additional 10% tax on the earnings portion of the withdrawal unless an exception applies.

You should recognize that IRS' definition of the term "qualified higher education expenses" is broader than the qualified expenses for which you can redeem tuition units under a plan contract. You can only use the plan for undergraduate resident tuition and schoolwide required fees, while the Code §529 definition of qualified higher education expenses includes not only undergraduate resident tuition and schoolwide required fees at a Texas public institution (a Texas four-year public college or university, Texas two-year public college, or Texas public technical institute, excluding medical and dental schools), but undergraduate and graduate resident and non-resident tuition, fees, books, supplies, and equipment required for enrollment or attendance at qualifying private and out-of-state colleges and universities. The term also can include reasonable room and board, special needs services, and certain purchases of computers and related hardware, software, and services.

So, for example, if your beneficiary receives a scholarship to attend a Texas public institution, you can request a refund of the tuition units equal to the amount of that scholarship. If you spend that money to pay for your beneficiary's

other qualified higher education expenses, such as books, supplies, and possibly even room and board, this may be considered a "qualified withdrawal" by the IRS and the earnings portion of that refund may not be subject to federal income tax or the additional 10% tax. By contrast, if you spend that money on a vacation, the refund would be considered a "non-qualified withdrawal" subject to tax. Note that in this example, because the refund is paid to you, the responsibility for any taxes would be yours.

Where a non-qualified withdrawal is paid to your beneficiary, the earnings would be income to your beneficiary. For instance, if your beneficiary dropped a class and received a refund from the school, your beneficiary would need to pay income tax on the earnings portion of the refund unless the money is spent on qualified higher education expenses of the beneficiary. It is important to retain documentation that might be requested by the IRS for such expenses.

In addition to the federal income tax, an additional 10% tax is generally imposed on the earnings portion of any non-qualified withdrawal from a 529 plan. There are, however, certain exceptions:

- withdrawals because of the beneficiary's death or disability;
- withdrawals to the extent of certain scholarships, allowances, or payments received;
- withdrawals based on attendance at a U.S. military academy; and
- withdrawals resulting from the beneficiary's use of certain tax credits.

In these cases, although federal (and, for non-Texas residents, perhaps state) income tax may still be owed on any earnings, the additional 10% tax would not be imposed. See the *Additional Federal Tax Exceptions* section for more information.

ROLLOVERS TO ANOTHER 529 PLAN

As discussed in the *Rollover Contributions* section, rollovers may be made either directly or indirectly. Direct rollovers are transfers of funds from one account to another with no intermediary (e.g., State A's 529 plan transfers funds to your Texas 529 plan). Indirect rollovers occur when you withdraw funds from a 529 plan, and you then contribute that money to another 529 plan or a qualified ABLE program account.

Rollovers, direct or indirect, may occur between the Texas plan and an account in another state's 529 plan without federal income tax liability on the earnings or the 10% additional tax if: (1) the entire transaction is completed within 60 days of the withdrawal; and (2) the funds are contributed to an account for the benefit of the same beneficiary or a Member of the Family. Where the transfer is to the same beneficiary, you are limited to one tax-free rollover every rolling 12 months. Transfers not completed within 60 days of the withdrawal are considered non-qualified withdrawals subject to federal income tax and the 10% additional tax.

Transfers between two Texas-sponsored 529 plans for the same beneficiary are not treated as rollovers, but as non-taxable reallocations subject to a twice-per-calendar-year limit. This federal limitation applies to all 529 plans with the same purchaser-beneficiary combination. If you own multiple Texas-sponsored 529 plan accounts for a beneficiary, you may submit changes for your accounts at the same time and have all these changes be considered a single reallocation. Submitting changes on different dates, however, will result in each change being counted separately, with any over the two-per-calendar-year limit being treated as a non-qualified withdrawal.

For an indirect rollover, you must provide appropriate documentation to substantiate the portion of the funds to be treated as prior contributions rather than earnings, otherwise the entire amount

of the rollover will be treated as earnings. In the case of a direct rollover or transfer, the transferring 529 plan may provide this information.

Please note that while qualified rollovers and permitted reallocations are not subject to federal income tax or the 10% additional tax, there may be other significant tax consequences, such as transfer taxes discussed below. Also, while Texas does not have a state income tax, residents of other states should consider whether their state income tax applies to any non-qualified withdrawal. Residents of other states should consider whether their or their beneficiary's home state offers its residents 529 plans that provide favorable state tax treatment or other state benefits such as financial aid, scholarship funds, and protection from creditors that may only be available through that state's plan. If a purchaser is a taxable business entity, earnings on non-qualified withdrawals may also be subject to the Texas franchise tax. You are encouraged to consult with a tax advisor for information on the tax treatment and implications of any rollover or transfer to your situation. You are solely responsible for complying with these requirements.

### ROLLOVERS TO A QUALIFIED ABLE PROGRAM

To avoid tax on a rollover from the plan to an account in a qualified ABLE program, similar conditions must be met: (1) the entire transaction must be completed within 60 days of the withdrawal; and (2) the funds must be contributed to an account for the benefit of the same beneficiary or a Member of the Family who meets the ABLE eligibility requirements. Contributions to an ABLE program account together with the rollover cannot exceed the annual contribution limit, which is $18,000 for 2024. Excess amounts over this limit that are returned to the plan may not be considered new contributions to your contract.

### ROLLOVERS TO A ROTH IRA

Starting January 1, 2024, you may also roll over the Transfer Value of tuition units from your contract to a Roth IRA subject to certain conditions: (1) your contract has been maintained for 15 years prior to the rollover; (2) the rollover is made as a direct transfer to the Roth IRA; (3) the beneficiary of your contract and the Roth IRA are the same. Please note that while the Roth IRA income limitations are waived for such rollovers, the annual IRA contribution limits still apply. In addition, the rollover amount may not exceed the beneficiary's compensation for the year of the rollover and contributions (including associated earnings) made over the past 5 years may not be rolled over. Finally, there is a lifetime cap on rollovers to a Roth IRA of $35,000 per beneficiary.

The information presented here is based on a good faith interpretation of federal legislation enacted in December 2022. The U.S. Treasury Department and IRS may issue interpretative guidance in the future which may affect the tax treatment of such rollovers. Please consult with your tax advisor regarding the applicability to your personal situation.

### ROLLOVERS FROM A COVERDELL EDUCATION SAVINGS ACCOUNT

Amounts contributed to the plan from a Coverdell Education Savings Account (ESA) should be considered a qualified distribution from the ESA and not subject to federal income tax or the additional 10% tax. Appropriate documentation from the transferring Coverdell ESA must be provided to substantiate the portion of the funds to treat as prior contributions rather than earnings subject to tax, or the entire amount will be treated as potentially taxable earnings.

If you make withdrawals from both the plan and a Coverdell ESA, those funds cannot be used to cover the same education expenses. For example, if you redeem tuition units to cover 15 credit hours

for the Fall semester, you cannot also withdraw an equivalent amount from your Coverdell ESA for those same hours. To the extent the total withdrawals exceed the amount allowed under Code §529, you must allocate the expenses between the two sources to designate which portion of each is tax free and which portion may be subject to tax.

ROLLOVERS FROM SERIES EE AND SERIES I BONDS

Interest on Series EE Bonds issued after December 31, 1989, as well as interest on all Series I Bonds, may be completely or partially excluded from federal income tax when rolled over to a 529 plan. To be excluded, the bond proceeds must be contributed to the plan in the same calendar year the bonds are redeemed. Certain income limitations apply, so you should speak with a tax advisor.

Generally, if you provide appropriate documentation to the plan manager, the original purchase price of the bonds redeemed and contributed will be added to the contributions portion of the receiving contract, with the interest added to earnings. Otherwise, the IRS may consider the entire rollover contribution subject to tax.

## ADDITIONAL FEDERAL TAX EXCEPTIONS

As already discussed, a 10% additional tax is generally imposed on the earnings portion of any non-qualified withdrawal from a 529 plan. However, there are certain exceptions noted below. Please consult your tax advisor regarding your circumstances. For more information on the computation of refunds in the situations described below, see *PART 5: REFUNDING TUITION UNITS*.

DEATH OF YOUR BENEFICIARY

In the event of your beneficiary's death, you may change the beneficiary or request a refund of all or a portion of the tuition units available under your contract. A distribution under these circumstances, if paid to the estate of your beneficiary, will not be subject to the 10% additional tax, although the earnings will still be subject to federal income tax, and applicable state income tax for non-Texans. If the withdrawn amounts are not paid to the beneficiary's estate, this may constitute a non-qualified withdrawal subject to applicable federal income taxes at the recipient's tax rate as well as the 10% additional tax.

DISABILITY OF YOUR BENEFICIARY

If your beneficiary becomes "disabled," as defined by Code §72(m)(7), you can change the beneficiary or request a refund of the tuition units under your contract. These types of distributions will not be subject to the 10% additional tax, but any earnings will be subject to federal and, for non-Texans, any applicable state income taxes at the recipient's tax rate.

RECEIPT OF A SCHOLARSHIP

If your beneficiary receives a tax-free scholarship, allowance, or payment described in Section 25A(g)(2) of the Code, tuition units valued up to the amount of the scholarship may be refunded without imposition of the 10% additional tax. The earnings portion of the withdrawal is subject to federal and, for non-Texas residents, any applicable state income tax at the recipient's tax rate.

APPOINTMENT AT A U.S. MILITARY ACADEMY

If your beneficiary attends a U.S. military academy, you can request a refund of the value of tuition units up to the costs of "advanced education," as defined by 10 United States Code §2005(e)(3), related to your beneficiary's attendance at the school without incurring the 10% additional tax. As with the other exceptions, the earnings portion of the withdrawal is still subject to federal and, for non-Texans, any applicable state income tax at the recipient's tax rate.

EDUCATION TAX CREDITS

Tax benefits, such as education tax credits, may be available to you and/or your beneficiary in addition to purchasing tuition units under your plan contract. Tax laws provide special rules intended to coordinate these disparate initiatives and avoid the duplication of benefits. For example, using an American Opportunity tax credit or a Lifetime Learning tax credit does not affect participation in the plan, and you may be able to request a refund of tuition units to the extent of such credits without paying the additional 10% tax on earnings. However, in determining whether a refund/withdrawal from the plan is qualified, you cannot claim the same expenses for which a credit was claimed. If you intend to utilize one of these types of tax benefits, you are encouraged to speak with a tax, finance, or legal advisor first.

## IRS REPORTING

IRS Forms 1099-Q are sent to the IRS and the applicable purchaser or beneficiary annually to report any refunds/withdrawals from a plan. Distributions will be reported to the IRS on Form 1099-Q as follows:

| Type of Distribution | Taxable Party |
|---|---|
| Payments to Colleges and Universities | Beneficiary |
| Scholarship Refund | Purchaser |
| Voluntary Cancellation Refund | Purchaser |
| Involuntary Cancellation Refund | Purchaser |
| Rollover to a Roth IRA | Beneficiary |
| Rollover to Another 529 Plan | Purchaser |

For the purposes of calculating the earnings portion of a particular distribution, all plan contracts having the same purchaser and beneficiary will be aggregated into a single IRS Form 1099-Q. You and/or your beneficiary are solely responsible for any tax consequences and for maintaining the records necessary to demonstrate to the IRS or other state or federal entities that withdrawals are qualified or non-qualified.

## FEDERAL TRANSFER TAXES

The 2010 Tax Relief Act made significant changes to federal estate, gift, and generation-skipping transfer ("GST") taxes. The American Taxpayer Relief Act of 2012 made permanent the exemption levels set by those federal estate, gift, and GST tax provisions, and raised the applicable tax rate permanently for amounts over the exemption limits from 35% to 40%. The law also makes permanent "portability," which allows a surviving spouse the right to the unused portion of a deceased spouse's exemption. The Tax Cuts and Jobs Act of 2017 doubled the exemption amounts, subject to indexing for inflation from the 2011 base year. Please consult your tax advisor regarding the specific application of these rules to your circumstances.

GIFT TAX

Most contributions to a 529 plan are considered "completed gifts" to the beneficiary. As such, so long as the contributions fall below the annual exclusion, you (or any other contributor) will not be required to pay federal gift tax. For 2024, the annual gift tax exclusion is $18,000 ($36,000 for a married couple) per donee. There is also a lifetime exclusion, as of 2024, of $13.61 million for an individual (doubled for a married couple).

You may also elect to aggregate your annual gift tax exclusions over a five-year period by filing an IRS Form 709. This provision allows purchasers and other individuals to contribute up to $90,000 in a single tax year ($180,000 for married

couples) to a beneficiary free of tax. However, a purchaser or individual who contributes the maximum gift amount may not make additional gifts to the same person until the end of the five-year averaging period without incurring federal gift tax. If you die before the end of the five-year period, the portion of the contribution allocable to the remaining calendar years of the election (beginning with the calendar year after your death) would be included in your gross estate for federal estate tax purposes.

ESTATE TAX

Generally, contributions to a qualified prepaid tuition program, such as the plan, are not includible in the purchaser's or other contributor's gross estate. If, however, the contributor has elected the five-year averaging and dies before the end of the five-year period, that person's gross estate will include the portion of the contributions allocable to periods following his or her death (beginning with the year following the death). As with the federal gift tax, however, there is an exclusion available. For an estate of any decedent dying in calendar year 2024, the basic exclusion amount is $13.61 million ($27.22 million for a married couple). Please contact a tax professional to determine the effect of federal estate tax provisions on your situation.

GENERATION-SKIPPING TRANSFER TAX

In addition to possible federal gift and estate tax consequences, the federal GST tax may apply to contributions to the plan if the beneficiary is more than one generation younger than that of the contributor. Contributions that qualify for the annual gift tax exclusion discussed above, however, are not subject to federal GST tax. If the federal GST tax does apply, there is an exemption equal to the exemption for federal estate taxes. Consult your tax advisor regarding the specific application of these rules to your circumstances.

ROLLOVERS AND OTHER TRANSFERS

In the case of a rollover of assets from one 529 plan to another, Code §529 provides that certain transfers may be treated as not subject to transfer taxes. For example, if an account is rolled over to a new beneficiary who is a Member of the Family and in the same generation as the previous beneficiary, no federal gift or GST taxes should apply. If, however, the new beneficiary is in a lower generation than the previous beneficiary, federal gift tax and/or GST tax may apply to the amount transferred. In addition, if a purchaser transfers ownership of a plan contract to another individual or entity, that transfer may be deemed a gift which could trigger federal gift tax on any amount greater than $18,000 ($36,000 for married couples making a joint gift) in 2024. The five-year averaging rule may be applied. Please consult your legal, financial, or tax advisor for further information.

**STATE INCOME TAX**

Texas does not impose a state income tax on individuals.

If you are not a resident of the state of Texas, however, the state income tax treatment of contributions to and earnings and distributions from your plan contract will depend on the laws of your home state. Because each state has different tax provisions, this Plan Description does not address those state tax consequences of purchasing a contract in the plan.

If you are a non-resident of Texas, you should also consider whether your home state, or your beneficiary's home state, offers residents any tax or other state benefits, such as financial aid, scholarships, and/or protection from creditors, that are only available for participants in that state's 529 plan. You also may wish to contact your home state's 529 plan(s) to learn more about those plans' features, benefits, and limitations. Keep in mind that state-based benefits should

only be one of many appropriately weighted factors to be considered when deciding whether to open an account. Please consult your financial, tax, or other advisor to learn more about how state-based benefits, and any limitations, might apply to your specific circumstances.

## PART 8: RISK FACTORS AND CONSIDERATIONS

Before making any decision to participate in the plan or to purchase tuition units, you should carefully consider the information in this Plan Description and Master Agreement. This Plan Description and Master Agreement should not be construed to provide legal, financial, or tax advice. You should consult an attorney or financial or tax advisor with any legal, business, or tax questions you may have.

This plan is not an investment, but plan contracts are nevertheless subject to certain risks. You should assess these risks with the understanding that they could arise at any time during the life of a contract.

### NO GUARANTEE OF ADMISSION

There is no guarantee that your beneficiary will: (1) be admitted to any or a specific college, university, career school, or apprenticeship program (all normal admission requirements must still be met); (2) be permitted to continue attending a particular school; (3) graduate or receive a degree; (4) be treated as a state resident for tuition or any other rate purpose; or (5) receive any specific treatment under applicable financial aid programs.

### LIMITED USE OF TUITION UNITS

Many factors affect the number of tuition units required to pay for an academic year, which is defined as 30 semester credit hours. For instance, if your beneficiary attends a Texas public college or university with qualified expenses above the weighted average or enrolls for more than 30 semester credit hours in an academic year, more tuition units may be required than anticipated when enrolling in the plan. You (and your beneficiary) should annually review the calculator on our website at www.texastuitionpromisefund.com/calculator/ or the Academic Year Tuition Unit Pricing Schedule and Unit Value Redemption Guide available at www.texastuitionpromisefund.com/tips-tools/forms-materials/ for the latest information on the estimated number of tuition units required at Texas public colleges or universities.

Further, if your beneficiary attends a school that is not a Texas public institution (*e.g.*, a medical or dental school, Texas private college or university, out-of-state college or university, career school, or registered apprenticeship program), the tuition units will only be redeemable using the Transfer Value. This amount may be significantly less than the actual cost at your beneficiary's chosen school and may therefore be less valuable than had the beneficiary attended a Texas public institution.

### TUITION UNITS CAN ONLY BE USED FOR QUALIFIED EXPENSES

Tuition units may only be used to pay for qualified expenses, or undergraduate resident tuition and schoolwide required fees at Texas public colleges and universities. This term is more restrictive than qualified higher education expenses allowable under Code §529 that may be covered by other 529 plans offered by the state of Texas or other states. For example, undergraduate and graduate tuition (including certain K-12 tuition expenses), fees, books, supplies, and equipment required for enrollment or attendance at qualifying private and out-of-state colleges or universities, reasonable room and board under certain circumstances, qualified student loan repayments, special needs services, and certain purchases of computers and related hardware, software, and services may qualify for preferential tax treatment as qualified higher education expenses under some 529 plans, but would not be considered qualified expenses under the plan. You might want to consider both a prepaid tuition plan and a college savings plans for more extensive coverage of your beneficiary's education expenses.

TUITION UNITS DO NOT COVER OUT-OF-DISTRICT COSTS

A beneficiary who redeems tuition units to attend a Texas public junior college but lives out-of-district is responsible for paying any additional tuition and fees charged by the junior college to persons who do not reside within its taxing jurisdiction.

BENEFICIARY RESPONSIBLE FOR ANY ADDITIONAL COSTS

If you redeem fewer tuition units than needed to pay the total cost of your beneficiary's tuition and schoolwide required fees, you or the beneficiary are responsible for paying the difference at the school's then-current rates based on the beneficiary's then-current residency status.

**GOVERNING LAWS MAY CHANGE**

Congress could amend Code §529 or other federal laws, Texas could amend the Texas Education Code, and other states could amend their laws. Possible federal legislative action could diminish or even terminate your plan's tax advantages. Any of these occurrences could materially change or eliminate the benefits described in this Plan Description. There can also be no assurance that such changes will not adversely affect the value to you, the purchaser, or your beneficiary of participating in the plan.

Further, final regulations, other administrative guidance, or court decisions might be issued that could adversely impact the federal tax consequences or requirements with respect to the plan. Because the regulations proposed under Code §529 do not reflect subsequent amendments to the provision, it is likely that the final regulations, if and when issued, will differ from those proposed.

Finally, while the IRS has issued a tax-exempt certificate to the plan as a qualified tuition program, the plan has not sought or received a ruling from the IRS that the plan conforms to the requirements of Code §529. The board may determine to seek a ruling in the future, but the present policy of the IRS is to not issue any determinations for state-sponsored 529 plans.

**PLAN TERMS MAY CHANGE**

The board, in its discretion, may change the plan manager, consultant, or actuary and it is likely that the plan manager, consultant, and actuary when you purchase a contract will not remain in that position until your plan is closed. You will have no voice in the selection of any plan manager, consultant, or actuary.

Account fees, expenses, and charges are subject to change at any time, and new fees, expenses, and charges may be imposed in the future without prior notice to purchasers.

ENROLLMENTS MAY BE SUSPENDED

The board evaluates the actuarial soundness of the plan each year. To ensure the financial viability of the plan, the board may modify or temporarily suspend new enrollments. The board's audited annual report, including the actuary's report on plan soundness, can be found at www.texastuitionpromisefund.com/tips-tools/forms-materials/.

PLAN MAY BE MODIFIED OR TERMINATED

If a change in the tax or other federal or state law makes continued operation of the plan prohibitive or infeasible, the board or the Comptroller may recommend that the plan be suspended, modified, or terminated.

Further, if the Comptroller determines that the plan is financially infeasible, the Comptroller will notify the Governor and the Legislature to recommend that the plan be modified or terminated accordingly.

CONGRESS, THE STATE, OR THE BOARD MAY CHANGE PLAN BENEFITS AND REQUIREMENTS IN THE FUTURE, AND THE UTILITY OF EXISTING TUITION UNITS MAY BE CHANGED OR ELIMINATED. THE CONSENT OF PURCHASERS, OTHER CONTRIBUTORS, OR BENEFICIARIES TO ANY SUCH CHANGE IS NOT REQUIRED. KEEP IN MIND THAT IF THE PARAMETERS OF THE PLAN CHANGE, THE RISKS ASSOCIATED WITH PARTICIPATING IN THE PLAN MAY CHANGE.

A plan contract may, however, remain in effect following a termination for some purchasers and/or beneficiaries. If the plan is terminated, beneficiaries enrolled at or accepted by a Texas public institution, private college or university, accredited out-of-state college or university, registered apprenticeship program, or medical, dental, or career school may use their tuition units as planned. Also, beneficiaries projected to graduate from high school no later than three years after the plan is terminated may continue to use their tuition units as intended. For all others, a contract terminates when the plan terminates, and any unused tuition units would be submitted for a refund.

**WEIGHTED AVERAGE COSTS MAY CHANGE**

College tuition and fees change every year, so the weighted average cost of undergraduate tuition and schoolwide required fees will undoubtedly change as well. Therefore, the specific school(s) at the weighted average may change annually. Neither the board nor the plan manager can make any assurance that an institution whose qualified expenses are at the weighted average in the year tuition units are purchased will still be at the weighted average in the year the units are redeemed.

**LIMITATIONS ON REFUNDS**

There is no guarantee that contributions to a contract account can be refunded, and the amount of any refund could be less than the amount paid for the purchase of tuition units if the plan has experienced net investment losses that equal or exceed your total contributions since the units were purchased. Furthermore, earnings will be paid with the Refund Value only if the board determines that the payment will not adversely affect the actuarial soundness of the plan, and that the plan will be able to pay the costs of program administration, operations, and other obligations.

**OTHER OPTIONS MAY BE BETTER FOR YOU**

Neither the board nor the plan manager makes any representation regarding the suitability or appropriateness of a plan contract or any type of tuition unit offered by the plan. Other prepaid tuition or college savings plans may be more appropriate depending on your financial status, tax situation, risk tolerance, age, goals, savings needs, and time horizons. Therefore, when considering participation in the plan, you should consult a tax or investment advisor first.

LIMITED LIQUIDITY

Purchasing tuition units under the terms of a plan contract reduces the ability to readily access those funds (their liquidity). Once contributions have been made to a contract, a three-year holding period applies before any units can be redeemed and there are limited circumstances in which they can be withdrawn or refunded on a tax-free basis.

In addition, you should consider other alternatives, including savings and investment vehicles. Other 529 plans, and education savings and investment programs are available that may: (1) offer benefits, including state tax benefits, that are not available under the plan; (2) offer approaches, investments, or other options that the plan does not; and/or (3) involve different fees, expenses,

and tax consequences than the plan. Therefore, before enrolling in the plan, you should consult a tax or investment advisor.

### UNCERTAIN IMPACT ON FINANCIAL AID

The plan cannot determine and makes no representation as to what effect, if any, participation in the plan may have on future federal, state, institutional, or private financial aid eligibility for you or your beneficiary. Purchasing a plan contract or tuition units may have a material, adverse effect on your beneficiary's eligibility to receive assistance under some financial aid programs.

Whether your plan contract will affect your beneficiary's eligibility for federal financial aid depends on the beneficiary's relationship to the purchaser. Texas law provides that your contract may not be considered in determining eligibility for Texas-sponsored student financial aid. For school-based financial aid, the effect of being a purchaser or beneficiary will vary from institution to institution.

Because of the uncertainty, when considering the school or program your beneficiary may attend, you are advised to consult a financial aid professional and/or the state or educational institution offering a financial aid program to determine the impact of participating in the plan.

### UNCERTAIN IMPACT ON MEDICAID ELIGIBILITY

When considering Medicaid eligibility, the impact of having a plan contract in your name on behalf of another is not clear. First, there is no assurance the contract will not be treated as a "countable resource" in determining the financial eligibility of either you or your beneficiary. Second, withdrawals, whether qualified or non-qualified, could delay Medicaid payments. You should consult your personal benefits advisor to ascertain the impact a contract and redemptions or refunds related to it may have on Medicaid eligibility and the timing of Medicaid payments. The availability of tuition units under a plan contract may adversely affect a purchaser's and/or beneficiary's eligibility for other federal and state assistance programs. This treatment is subject to change at any time. Please consult the agency or entity that administers your specific benefit program for additional information.

### PLAN IS NOT AN INVESTMENT

You are entering into a prepaid tuition contract with the board. The plan is not an investment. A purchaser (you), your beneficiary, or any other contributor to the plan may not direct the investment of plan assets. Further, purchasers, beneficiaries, and other contributors do not have a direct ownership interest in the investments held in the plan's portfolio. Therefore, these individuals do not have the rights of an owner of such investments, including the right to vote proxies.

### NO ASSIGNMENTS OR PLEDGES

No portion of any contract can be assigned, transferred, pledged as security for a loan (including a loan used to obtain funds for contributions to the contract), or otherwise used, either by you, the purchaser, or your beneficiary.

## LIMITED DISPUTE RESOLUTION PROCESS

Texas law requires the consent of the Legislature to sue the board, the Comptroller, and/or the state. In addition, the plan requires all disputes against the plan, the plan manager, the board, the Comptroller, or the state be submitted to mediation or arbitration before they can be heard in a court of law. Therefore, your recovery options may be limited if you have a dispute with the plan that cannot be resolved directly with the plan manager. You should also note that your contract, and any tuition units under that contract, may be suspended during this process.

## SECURITIES LAW CONSIDERATIONS

Plan contracts between you and the board may be considered "securities" under federal law. However, the state does not intend to register them with the Securities and Exchange Commission because no-action letters have been issued to other states, indicating the agency would not recommend enforcement action if those states' prepaid tuition plans were not registered.

The plan has been specifically exempted from Texas securities law. Under Texas Education Code §54.768, the registration requirements of the Texas Securities Act do not apply to the sale of a contract by the board, or by a registered securities dealer or registered investment adviser.

## CREDITOR PROTECTION LAW CONSIDERATIONS

The plan is prohibited from providing legal advice. As such, the board, the plan, and the plan manager make no representations or warranties regarding your protection from creditors.

### FEDERAL LAW

The Bankruptcy Code generally provides protection in federal proceedings for many 529 plans. If your beneficiary is your child, stepchild, grandchild, or step-grandchild (including through adoption or foster care), you may have protections subject to the following limits:

- contributions made to a plan contract for the same beneficiary at least 720 days before a federal bankruptcy filing are completely protected;
- contributions made to a plan contract for the same beneficiary between 365 days and 720 days before a federal bankruptcy filing are protected up to $7,575 (this limit is set by statute and changes periodically); and
- contributions made to a plan contract for the same beneficiary less than 365 days before a federal bankruptcy filing are not protected against creditor claims.

These limitations consider all 529 plans for the same beneficiary as if they were a single plan.

### TEXAS LAW

Texas Education Code §54.769(a) states: "Money in the fund is exempt from claims of creditors, including claims of creditors of a purchaser, a beneficiary, or a successor in interest of a purchaser or beneficiary." In addition, Texas Education Code §54.769(b) provides that payments under the plan are "exempt from attachment, levy, garnishment, execution, and seizure for the satisfaction of any debt, judgment, or claim against a purchaser, beneficiary, or successor in interest of a purchaser or beneficiary." Similarly, Texas Property Code §42.0021 states that "a person's interest in and right to receive payments from a qualified savings plan, whether vested or not, is exempt from attachment, execution and seizure for the satisfaction of debts."

Regardless of where you live, you should consult an attorney for advice on how state law might affect your personal situation.

## PRIVACY INFORMATION

As a purchaser of a contract under the plan, you are entitled to know how the plan and Orion, the current plan manager (together with its affiliates, subcontractors, employees and agents, "we"), protect your personal information and how we limit its disclosure.

This notice was last updated in November 2022. If we materially update or change this notice, we will post an update on the plan website at www.texastuitionpromisefund.com. If you do not have access to a computer and would like a hard copy of the information sent to you, please call the plan manager at 800-445-GRAD (4723), option 5.

### COLLECTION OF INFORMATION

We obtain non-public personal information about purchasers and beneficiaries from the following sources:

- your application and other forms;
- your account information and profile on the plan website; and
- your transactions related to the plan.

We do not collect personal information on the application or through the plan website unless you willingly provide it, either directly by email or on the secure areas of the website. When you log on to the website to access your account, we use your personal credentials to identify you, to provide you with requested products and services, and for everyday business purposes, such as to maintain your account, respond to inquiries, and process transactions. To update your personal information online, log on to the site, visit the "Select an Account" section, and select the "Maintain Profile" menu.

We use "cookies" to help us manage and improve the plan website. For example, cookies help us recognize new versus repeat visitors, track the pages visited, and enable some special features. You can refuse cookies by turning them off in your browser settings; however, doing so may limit your access to certain sections of the website.

### USE OF INFORMATION

We may use your personal information for everyday business purposes, such as to process your transactions, maintain your account, respond to your inquiries, provide you services, and respond to court orders and legal investigations.

### RIGHT OF REFUSAL

We will not disclose your personal information to unaffiliated third parties, except to respond to your inquiries and/or to service and maintain your contract, and as required or permitted by law, unless you expressly consent to such disclosure.

### PROTECTION OF INFORMATION

We do not disclose non-public personal information about current or former purchasers or beneficiaries to anyone, except as required or permitted by law.

### SECURITY MEASURES

We maintain physical, electronic, and procedural safeguards designed to protect your personal account information. All transactions on the plan website are secured by Secure Sockets Layer ("SSL") protocol and 128-bit encryption. SSL is used to establish a secure connection between your personal computer and the plan server, while encryption transmits information in a scrambled format.

For your security, we will not include personal or contact information in non-secure emails. To protect your own privacy, we advise you not to communicate confidential and/or personal information, such as Social Security and account numbers, to us via non-secure emails. Instead, take advantage of the secure features of the plan

website to encrypt your email correspondence. To do this, you will need a browser that supports SSL protocol.

We do not guarantee or warrant that any part of the plan website, including any file available for download, is free of viruses or other harmful code. It is your responsibility to take appropriate precautions, such as using antivirus software, to protect your computer.

TO KEEP YOUR ACCOUNT INFORMATION PRIVATE AND PREVENT UNAUTHORIZED TRANSACTIONS, DO NOT ALLOW ANYONE ELSE TO USE YOUR ACCOUNT PASSWORD, AND TAKE SPECIAL PRECAUTIONS WHEN ACCESSING YOUR ACCOUNT ON A COMPUTER USED BY OTHERS OR THE PUBLIC.

## CONTACT US

To submit any questions about this Privacy Policy, write to Orion at 17605 Wright Street, Omaha, Nebraska 68130; email Orion by clicking on the "Contact" section of the plan website at www.texastuitionpromisefund.com; or call us at 800-445-GRAD (4723), option 5.

## STATE OF TEXAS PRIVACY NOTICES

Federal Privacy Act Notice. Disclosure of your Social Security number on the application is required and authorized under applicable law for the purpose of tax administration and identification. 42 United States Code §405(c)(2)(C)(i); Internal Revenue Code §§529(d) and 6109(a); and Texas Education Code §54.772.

Texas Privacy Notice. The Comptroller's privacy notice is available at https://comptroller.texas.gov/about/policies/privacy.php. Under Chapter 559, Texas Government Code, you are entitled to review, request, and correct information we have on file about you, with limited exceptions. To request information for review or to request an error correction, contact Orion at 17605 Wright Street, Omaha, Nebraska 68130, or by phone at 800-445-GRAD (4723), option 5. You may also request information from the Comptroller's office online at the link above, by email (open.records@cpa.texas.gov), by mail at Open Records Section, Comptroller of Public Accounts, P.O. Box 13528, Austin, TX 78711-3528, or by fax at 512-475-1610.

## COMMENTS OR COMPLAINTS

Contact the plan manager at 800-445-GRAD, option 5, with any comments, complaints, or questions regarding the plan or to attempt to resolve any complaint or dispute arising from or related to the plan.

If your complaint has not been resolved, a copy of the board's complaint procedures may be obtained by mailing a request to: Prepaid Higher Education Tuition Program, Office of the Comptroller of Public Accounts, P.O. Box 13407, Austin, Texas 78711-3407, or by calling 512-936-2064.

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TEXAS TUITION PROMISE FUND®

A Prepaid Plan as Smart as You Are

# Master Agreement

Effective Date of April 2024

## Texas Prepaid Higher Education Tuition Board

Don Huffines, Texas Comptroller of Public Accounts, Austin, Texas

Orion Advisor Solutions, Inc., Plan Manager

DON HUFFINES
TEXAS COMPTROLLER OF PUBLIC ACCOUNTS

Orion

## TEXAS TUITION PROMISE FUND® MASTER AGREEMENT

This agreement, including all addenda incorporated herein by reference, is entered into by and between the **TEXAS PREPAID HIGHER EDUCATION TUITION BOARD** ("Board"), acting by and through the Texas Comptroller of Public Accounts ("Comptroller"), and the undersigned **PURCHASER**.

**WHEREAS**, Section 529 of the Internal Revenue Code of 1986, as amended ("IRC"), provides an exemption from certain income taxes to a qualified tuition program established and maintained by a state or agency or instrumentality thereof;

**WHEREAS**, the state of Texas, pursuant to Texas Education Code, Chapter 54, Subchapter H has established the Texas Tomorrow Fund II, a qualified tuition program marketed as the Texas Tuition Promise Fund® ("plan") maintained by the Board;

**WHEREAS**, the Board, acting by and through the Comptroller, pursuant to sections 54.751-54.778 of the Tex. Educ. Code has adopted rules and regulations published in Texas Administrative Code, Title 34, Chapter 7, Subchapter L;

**WHEREAS**, the purchaser has submitted a signed application, which includes online enrollments via the plan website, to the Board;

**WHEREAS**, the purchaser has read, understood, and agreed to fully comply with all terms, conditions, requirements, and other provisions of the Plan Description, current as of the effective date of this agreement and incorporated herein by reference;

**NOW, THEREFORE**, in consideration of the mutual covenants and terms and conditions contained herein, and of the execution hereof, and for other good and valuable consideration, the parties agree as follows:

### SECTION 1. DEFINITIONS

As used in this agreement, the following terms shall have the following meanings, except as otherwise expressly provided or unless the context clearly requires otherwise. Terms defined in the IRC, the Tex. Educ. Code, and the Tex. Admin. Code are incorporated herein by reference. Unless the context otherwise clearly requires, references to the singular include the plural and vice versa, and words importing gender include the masculine, feminine, and neuter genders. The words "include," "includes," and "including" shall be deemed to be followed by the phrase "without limitation." The words "hereof," "herein," "hereunder," and similar terms in this agreement refer to this agreement as a whole and not to any particular provision.

1.1 "Adjusted net earnings" means a rate set by the Board that is up to 2% less than the actual investment return for the plan for each year tuition units are held but no more than 5%. Adjusted net earnings may not be paid where the Board determines such payment would disrupt the actuarial soundness of the plan.

1.2 "Application" means the form completed by the purchaser, either in writing or online, and submitted to the Board to solicit enrollment of the purchaser in the plan.

1.3 "Beneficiary" means a natural person designated under this agreement as the individual on whose behalf the purchaser is entitled to redeem tuition units.

1.4 "Career school" means a career school or college as defined by Tex. Educ. Code §132.001 that offers a two-year associate

degree as approved by the Texas Higher Education Coordinating Board.

1.5 "Eligible in-state college" means a public senior college or public junior college that qualifies as an eligible educational institution under IRC §529.

1.6 "Eligible out-of-plan college" means a medical or dental school, registered apprenticeship program, Texas private or independent institution of higher education as defined by Tex. Educ. Code §61.003(15), career school, or out-of-state institution of higher education accredited by a recognized accrediting agency as such term is defined by Tex. Educ. Code §61.003(13), and that qualifies as an eligible educational institution under IRC §529.

1.7 "Enrollment period" means the time established by the Board during which a purchaser may enter into an agreement with the Board to purchase tuition units under the plan.

1.8 "First payment due date" means the date by which the first payment must be made after enrolling in the plan.

1.9 "Holding period" means the period that must transpire following the purchase of tuition units before those units may be redeemed.

1.10 "In good order" means that a document has been completed in full, signed by the authorized person or persons or an electronic request submitted online through the purchaser login portal, and is accompanied by such supplementary information, documentation, and fees, if any, as the Board may determine are required.

1.11 "Maximum Texas program contribution limit" means the total amount of contribution value that cannot be exceeded by all Texas-administered 529 plans for a particular beneficiary. As of the effective date of this agreement, the maximum Texas program contribution limit is $500,000. This amount is subject to change by the Board at any time without notice.

1.12 "Medical or dental school" means a medical and dental unit as defined by Tex. Educ. Code §61.003(5), including The Texas A&M University System Health Science Center and its component institutions, agencies, and programs; the Texas Tech University Health Sciences Center; the Texas Tech University Health Sciences Center at El Paso; the University of Houston College of Medicine; the Sam Houston State University College of Osteopathic Medicine; The University of Texas Medical Branch at Galveston; The University of Texas Southwestern Medical Center; The University of Texas Medical School at San Antonio; The University of Texas Dental Branch at Houston; The University of Texas M. D. Anderson Cancer Center; The University of Texas Graduate School of Biomedical Sciences at Houston; The University of Texas Dental School at San Antonio; The University of Texas Medical School at Houston; the Dell Medical School at The University of Texas at Austin; the School of Medicine at The University of Texas Rio Grande Valley; the nursing institutions of The Texas A&M University System and The University of Texas System; and The University of Texas School of Public Health at Houston; and such other medical or dental schools as may be established by statute or as provided in Chapter 61 of the Tex. Edu. Code.

1.13 "Member of the family," as defined by IRC §529(e)(2) means, with respect to a specific beneficiary:

1.13.1 the spouse of such beneficiary;

1.13.2 an individual who bears a relationship to such beneficiary as described in IRC §152(d)(2):

a. a child or descendant of a child of the beneficiary,

b. a brother, sister, stepbrother, or stepsister of the beneficiary,

c. the father or mother of the beneficiary, or an ancestor of either,

d. a stepfather or stepmother of the beneficiary,

e. a son or daughter of a brother or sister of the beneficiary,

f. a brother or sister of the father or mother of the beneficiary, and

g. a son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law of the beneficiary;

1.13.3 the spouse of any individual described in subparagraph 1.12.2; and

1.13.4 any first cousin of such beneficiary.

For purposes of this definition, a legally adopted child of an individual shall be treated as a child of such individual, and a half-brother or half-sister is treated as a brother or sister.

1.14 "Newborn" means an infant under one year of age on the date of enrollment.

1.15 "Paid in full" means that all required payments and any assessed fees related to the purchase of tuition units or maintenance of a plan agreement have been received and processed by the plan manager.

1.16 "Plan manager" means a professional plan administrator under contract with the Board to provide administrative services such as recordkeeping, customer service, fund accounting and reporting, and to execute investment orders on behalf of the plan.

1.17 "Prepaid unit maximum" means the highest number of tuition units of any type that may be issued under the plan for a specified beneficiary, regardless of the purchaser. As of the effective date of this agreement, the prepaid unit maximum is the equivalent of 600 Type I Tuition Units. This amount is subject to change by the Board at any time without notice.

1.18 "Prepayment" means, with respect to an installment plan, payment of the outstanding balance or a portion thereof prior to the time required by the terms of the arrangement.

1.19 "Public junior college" means a two-year public junior college, public state college and public technical institute as such terms are defined by Tex. Educ. Code §61.003 and includes Lamar State College—Orange; Lamar State College—Port Arthur; the Lamar Institute of Technology; and the Texas State Technical College system.

1.20 "Public senior college" means a four-year public senior college or university as defined by Tex. Educ. Code §61.003(3), including The University of Texas at Austin; The University of Texas at El Paso; The University of Texas of the Permian Basin; The University of Texas at Dallas; The University of Texas at San Antonio; The University of Texas at Arlington; The University of Texas—Pan American; The University of Texas at Brownsville; The University of Texas at Tyler; Tarleton State University; Prairie View A&M University; Texas Maritime Academy; Texas Tech University; University of North Texas; Lamar University; Texas A&M University, Main University; Texas A&M University—Kingsville; Texas A&M University—Corpus Christi; Texas A&M University—Commerce; Texas Woman's University; Texas Southern University; Midwestern State University; University of Houston; Sam Houston State University; Texas State University; West Texas A&M University; Stephen F. Austin State University; Sul Ross State University; and Angelo State University. The term does not include a medical or dental school.

1.21 "Qualified expense" means undergraduate resident tuition or a schoolwide required fee that meets the definition of a qualified higher education expense under IRC §529.

1.22 "Redeem," or "redemption" means the exchange of tuition units to pay a beneficiary's qualified expenses at an eligible in-state college or the use of the transfer value of such units to pay all or a portion of a beneficiary's qualified expenses at an eligible out-of-plan college.

1.23 "Reduced refund value" means an amount equal to the total purchase price of unused or refunded tuition units, less the total net losses on assets of the plan attributable to that amount. The reduced refund value does not include any state-provided matching contributions or any losses on state-provided matching contributions. Losses stop accruing on the business day a refund is processed by the plan manager.

1.24 "Refund value" means an amount equal to the total purchase price of unused tuition units, plus the adjusted net earnings or minus the total net losses on contributions made to purchase those units, but no less than the reduced refund value of such units. The refund value does not include any state-provided matching contributions or any earnings or losses on state-provided matching contributions. Earnings and losses stop accruing on the business day a refund is processed by the plan manager.

1.25 "Registered apprenticeship program" means an apprenticeship program registered and certified with the Secretary of Labor under Section 1 of the National Apprenticeship Act.

1.26 "Schoolwide required fees" means a fee charged by an eligible in-state college or eligible out-of-plan college to all students as a condition of enrollment, regardless of major or year of study, and that meets the definition of a qualified higher education expense under IRC §529. "Schoolwide required fees" would not include fees such as a laboratory fee or equipment fee for a specific course.

1.27 "Sales period" means the time established by the Board during which a purchaser may purchase tuition units under the plan.

1.28 "Transfer value" means an amount equal to the lesser of:

1.28.1 the total purchase price of the tuition units to be exchanged, plus or minus the adjusted net earnings or losses on the contributions made to purchase those units; or

1.28.2 the total cost of qualified expenses that would be covered by the units had they been used:

a. at the public senior college with the highest cost in the case of Type I Tuition Units,

b. at the public senior college at the weighted average in the case of Type II Tuition Units, and

c. at the public junior college at the weighted average in the case of Type III Tuition Units.

In either case, the transfer value does not include any state-provided matching contributions or any earnings or losses on state-provided matching contributions. Earnings or losses stop accruing on the business day that the exchange request is processed by the plan manager.

1.29 "Tuition" means the charges imposed by an eligible in-state college or eligible out-of-plan college, usually on a credit hour basis, and which are identified by such institutions as tuition.

1.30 "Tuition unit," or "unit" means any of the three types of units that can be purchased, redeemed, or transferred under the plan.

1.31 "Weighted average cost" means an amount equal to:

1.31.1 for Type II Tuition Units, the sum of the average cost of qualified expenses for 30 semester credit hours at each public senior college multiplied by the number of full-time equivalent students at that school over the total number of full-time equivalent students at all public senior colleges; or

1.31.2 for Type III Tuition Units, the sum of the average cost of qualified expenses for 30 semester credit hours at each public junior college multiplied by the number of full-time equivalent students at that school over the total number of full-time equivalent students at all public junior colleges. For purposes of this calculation, the term "qualified expenses" means the undergraduate tuition and schoolwide required fees charged to an in-district student.

**SECTION 2. APPLICATION TO PARTICIPATE IN THE PLAN**

2.1 ELIGIBILITY. The purchaser must meet the definition of a "United States person" under IRC §7701(a)(30) and be:

2.1.1 an individual at least 18 years of age who resides in the state of Texas and is the parent or guardian of the beneficiary;

2.1.2 an individual at least 18 years of age designating a beneficiary who is a resident of the state of Texas; or

2.1.3 a partnership, corporation, estate, or trust, or a state or local government, agency, or instrumentality thereof.

2.2 ENROLLMENT PERIOD. Except as otherwise provided by the Board, such action being confirmed by publication of the change in the Plan Description, the plan manager shall accept applications for participation in the plan annually during an enrollment period from:

2.2.1 generally, the first day of September in one year through the last day of February in the next year; or

2.2.2 in the case of a newborn beneficiary, the first day of September in one year through the last day of July in the next year.

2.3 APPLICATION. The purchaser must submit to the plan manager an application in good order signed or completed online through the purchaser login portal by an authorized person that contains:

2.3.1 the purchaser's name, address, and tax identification number;

2.3.2 the beneficiary's name and address;

2.3.3 the beneficiary's date of birth, which shall be used by the plan manager to determine the projected high school graduation date of the beneficiary;

2.3.4 the beneficiary's Social Security number or tax identification number or the purchaser's pledge to provide the beneficiary's Social Security number or tax identification number to the plan manager within 90 days of the first payment due date;

2.3.5 the number and type of tuition units to be purchased, and the payment option elected under section 4.1, together with such information as may be required to effectuate the purchase; and

2.3.6 a certification by the purchaser under oath that:

a. the purchaser has read, understood, and agrees to the terms and conditions of the Plan Description, which is incorporated herein by reference to the extent not inconsistent with this agreement; and

b. all information provided to the plan manager in connection with the application is true, accurate, and complete.

The purchaser must also submit with the application, or pledge to provide to the plan manager within 30 days, such other documents as may be required to administer this agreement under applicable law. The plan manager will not accept any application that is inaccurate or incomplete and will return to the purchaser any payments made therewith without interest.

2.4 ADDITIONAL INFORMATION. The plan may request the purchaser provide additional information concerning the purchaser's education and income, and the beneficiary's race or ethnicity. The plan will aggregate individual responses for statistical and evaluation purposes;

the plan will maintain the confidentiality of individual responses.

2.5 APPLICATION FEE. Submission of an application under subsection 2.3 must be accompanied by payment of a one-time, non-refundable application fee of $25, except where waived, as determined by the Board. The application fee shall be charged only once per purchaser-beneficiary combination, regardless of the number of plan contracts established by the purchaser for the same beneficiary.

2.6 RECORDS.

2.6.1 The plan will maintain separate records for each purchaser, which will reflect purchases, other contributions, fees paid or charged, redemptions, and any other transaction related to the tuition units purchased hereunder. Where the purchaser has executed additional plan agreements for the same beneficiary, the plan may provide a single statement reflecting such information for all agreements.

2.6.2 The purchaser shall be solely responsible for maintaining all plan account information and is fully responsible for promptly notifying the plan of any change of address for the purchaser or beneficiary.

2.7 AGREEMENT TO TERMS. By completing, signing, and submitting an application form or online application in good order with the required fees, you agree to the terms and conditions of the application, the Plan Description, and this agreement. Your contract and this agreement are subject to applicable law, including applicable provisions of the Texas Education Code and the Texas Administrative Code.

**SECTION 3. USE OF TUITION UNITS**

Tuition units purchased hereunder may be redeemed only to cover the cost of all or a portion of a beneficiary's qualified expenses. Any portion of qualified expenses not covered by the redemption of tuition units will be the responsibility of the purchaser or the beneficiary at the school's then-current tuition and schoolwide required fees costs based on the then-current residency status of the beneficiary; provided, however, that the purchaser may elect to redeem additional tuition units to cover such amounts. All tuition units must be paid in full and meet the holding period prior to redemption.

3.1 SALES PRICE. For each sales period from the first day of September in one year through the last day of August in the next year, or as otherwise established by the Board, the sales price of each tuition unit shall be 1% of:

3.1.1 in the case of Type I Tuition Units, the cost of qualified expenses for one academic year, or 30 semester credits hours, at the most expensive public senior college;

3.1.2 in the case of Type II Tuition Units, the weighted average cost of qualified expenses for one academic year, or 30 semester credit hours, at all public senior colleges; or

3.1.3 in the case of Type III Tuition Units, the weighted average cost of qualified expenses for one academic year, or 30 semester credit hours, at all public junior colleges.

3.2 REDEMPTION PROCESS. Each semester that units will be used, the purchaser shall authorize the redemption of tuition units, whole or fractional, in a format designated by the Board and published on the plan website that identifies the eligible in-state college to be attended by the beneficiary and the number and type of tuition units to be redeemed. Upon receipt of all required documentation, the Comptroller shall arrange payment to the school based on terms of this agreement and in accordance with Tex. Educ. Code §54.765.

3.3 IN-PLAN REDEMPTIONS. The redemption value of each tuition unit at an eligible in-state college shall be the sales price of such units as of the date of redemption.

3.4 OUT-OF-PLAN TRANSFERS. The transfer value for each tuition unit at an eligible out-of-plan college shall be the transfer value of such units as of the date of redemption. The purchaser shall authorize payment of the transfer value in a format designated by the Board.

3.5 DEFERRAL OF BENEFITS. The purchaser may elect to pay a beneficiary's qualified expenses, either in part or in whole, from a source other than this agreement and to defer the right to benefits under this agreement to a subsequent semester or term. Such deferral of benefits hereunder does not extend or otherwise affect the date on which this agreement expires.

3.6 LIMITATIONS ON TUITION UNITS. The redemption of tuition units, either in-plan or out-of-plan, is subject to the following limitations:

3.6.1 HOLDING PERIOD. The purchaser may not redeem any tuition unit prior to the expiration of a three-year holding period measured from the first payment due date. Additional pay-as-you-go units purchased after initial enrollment start a new three-year holding period as of the date payment is received for the additional tuition units.

3.6.2 EXPIRATION DATE. The purchaser must redeem all tuition units by the tenth anniversary of the beneficiary's projected date of high school graduation as determined by the plan manager based on the application form; provided, however, that proof of time spent in active U.S. military service by the beneficiary during the life of the contract shall toll the expiration of tuition units hereunder for the duration of such service. Failure to redeem all tuition units by the specified date will result in the automatic expiration of the units and the issuance of a refund under section 6.3. Using the contract for dual enrollment by the beneficiary while still in high school will accelerate the expiration date.

**SECTION 4. PAYMENT FOR TUITION UNITS**

All payments hereunder shall be made by check, money order, electronic funds transfer, automated recurring debits from a checking or savings account, payroll deduction, or federal money wire. Payments by payroll deduction require submission by the purchaser's employer of the applicable form published on the plan's website.

4.1 PAYMENT OPTIONS. Payments hereunder may be made by a single, lump sum payment, by a series of fixed payments over a set term, or on a pay-as-you-go basis whereby tuition units are purchased at the purchaser's discretion over time at the then-current sales price for the applicable sales period.

4.2 MINIMUM PURCHASES.

4.2.1 Except as provided in subsection 4.2.2, the plan requires a minimum purchase of at least 25 Type I Tuition Units or 50 Type II or Type III Tuition Units.

4.2.2 Contracts established under a pay-as-you-go payment option require an initial purchase of at least one tuition unit. Additional purchases thereafter may be made at the then-current sales price for the applicable sales period, provided the payment amount is no less than $15.

4.3 INSTALLMENT PLANS. Payments are due in the amount and on the dates specified by the plan manager and are fixed as of the effective date of this agreement. At the election of the purchaser, payments may be made on a monthly or annual basis over a term of five years or ten years, or the number of years between the effective date of this agreement and the projected high school graduation date of the beneficiary as computed by the plan manager based on the application form.

4.3.1 FIRST PAYMENT DUE DATE. The first payment shall be due on May 1 immediately following the enrollment period, except in the case of a newborn beneficiary where the first payment due date shall be the first business day at least 90 days after the effective date of this agreement.

4.3.2 SUBSEQUENT PAYMENT DUE DATES. Monthly payment shall be due on the first day of each month. Annual payments shall be due on May 1 of each year.

4.3.3 INTEREST. All installment plan payments shall include an imputed interest component at a rate set by the Board (the "interest rate").

4.3.4 PREPAYMENT. No penalty shall be applied to any prepayment of an installment payment hereunder. At the purchaser's election, such prepayment shall be applied to:

a. reduce the outstanding balance owed;
b. reduce the amount or number of future payments; or
c. fulfill a future payment obligation.

Where the purchaser fails to make an election under this subsection, any prepayment shall be applied to reduce the outstanding balance owed under this agreement.

4.3.5 UPGRADES AND DOWNGRADES. In the case of an upgrade or downgrade made in accordance with section 5.4 or 5.5, the tuition unit sales price and interest rate may be adjusted to reflect the price and rate applicable to the sales period during which such amendment is made.

4.3.6 EXTENSIONS. Subject to section 6.2 and the other limitations contained herein, on the written agreement of all parties, the term of an installment plan may be extended. The sales price and interest rate may be adjusted to reflect the price and rate applicable to the sales period during which such extension is made.

4.3.7 DEFAULT. In the case of an installment contract that reaches 150 days of delinquency or other default, a purchaser's installment contract shall be converted to a pay-as-you-go contract The number of units in the new pay-as-you-go contract at the time of conversion will be based on the amount paid under the installment contract, less any fees due the plan, divided by the then-current price of the type of units selected.

4.4 PAYMENT LIMITATIONS. No payment may be made to the plan to the extent such payment would exceed the maximum Texas program contribution limit or the prepaid unit maximum for a beneficiary as those terms are defined herein. The Board may prescribe other limits to the amount of qualified expenses payable under any plan contract.

**SECTION 5. CERTAIN AMENDMENTS TO THIS AGREEMENT**

The Board reserves the right, in its sole discretion, to unilaterally amend this agreement throughout its term to incorporate any modifications necessary for the Board's or plan's compliance with all applicable state and federal laws, regulations, requirements and guidelines.

5.1 CHANGE OF OWNERSHIP. The purchaser is the owner of this agreement and the tuition units purchased hereunder. The purchaser may exercise all rights and privileges, and the enforcement of any remedies, related to this agreement in his or her sole discretion. The beneficiary shall have no right to exercise any right or privilege, or enforce any remedy, held by the purchaser with respect to this agreement and no right to contest the purchaser's exercise of any such right or privilege, or enforcement of any remedy.

5.1.1 The purchaser may transfer ownership of this agreement to another eligible purchaser by written request in good order on a form approved by the Board, together with, at the option of the Board, a verification under oath that the information provided is true, accurate, and complete. No consideration of any kind may accompany such a transfer. The eligibility requirements under section 2.1 must be met at the time of any such transfer.

5.1.2 The purchaser may designate a successor to take ownership of this agreement on the death or other incapacitation of the purchaser. Thereafter, the successor shall be treated as and considered the purchaser for all purposes hereunder. In cases where a purchaser dies without having designated a successor, ownership of the agreement will convey under applicable state laws and regulations.

5.1.3 A purchaser who is the custodian of a Uniform Gifts to Minors Act or Uniform Transfers to Minors

Act account may only transfer ownership of this agreement to a successor under the provisions contained herein or, in accordance with applicable state laws and regulations, to the beneficiary upon his or her attainment of majority.

5.2 CHANGE OF BENEFICIARY. The purchaser may designate a new beneficiary at any time provided the purchaser submits a written request in good order on a form approved by the Board, together with any substantiating evidence of relationship requested by the Board and, at the option of the Board, a verification under oath that the information provided is true, accurate, and complete. The new beneficiary must meet the eligibility requirements of section 2.1 and be a member of the family of the existing beneficiary within the meaning of Code §529(e)(2) on the date the designation is changed.

5.2.1 The Board may amend this agreement such that the purchaser pays the amount that would have been owed had the purchaser originally designated the new beneficiary, accounting for any payments made before the date of such change. Amounts paid before the change of beneficiary shall be credited against amounts due at the time of such change.

a. Where the amount due at the time of such change is less than the amount paid prior to the change, such amount shall be credited against other amounts due through the term of this agreement.

b. Where the amount paid prior to the change exceeds the amount due through the term of this agreement, the excess amount shall be refunded to the purchaser pursuant to section 6.3.

5.2.2 The expiration date of tuition units purchased hereunder shall be recomputed in accordance with subsection 3.6.2 as if the purchaser had originally designated the new beneficiary based on the new beneficiary's projected high school graduation date.

5.2.3 Notwithstanding any other provision to the contrary herein, the custodian under a Uniform Gifts to Minors Act or Uniform Transfers to Minors Act account may not change the beneficiary of this agreement except as allowable under applicable state laws and regulations.

5.3 ROLLOVERS AND OTHER TRANSFERS. Except as provided herein, the purchaser may not sell, assign, or otherwise transfer this agreement, nor any interest, right, or benefit in it. Neither the purchaser nor the beneficiary may use any interest in this agreement as security for a loan.

The purchaser may roll over or transfer any unused tuition units from this agreement at the transfer value to another plan established by the state of Texas, another state, or other authorized entity (including, before January 1, 2026, any qualified Achieving a Better Life Experience (ABLE) program, and beginning January 1, 2024, to a Roth IRA for the same ben-

eficiary) in accordance with IRC §529. Any fees due and payable to the plan under this agreement shall be deducted from the amount of any such transfer. A transfer should be initiated within ten business days following receipt of a written request in good order from the purchaser on a form approved by the Board, together with, at the option of the Board, a verification under oath that the information provided is true, accurate, and complete.

5.4 UPGRADES. The purchaser may upgrade this agreement, or purchase additional tuition units beyond the original commitment, at any time on a pay-as-you go basis at the then-current sales price of such units. Where the initial purchase occurred on a lump sum basis, the agreement will be amended to reflect a pay-as-you-go payment option. An upgrade to an agreement made on an installment plan basis may only occur during the same sales period the installment plan was established and at the then-current sales price and interest rate.

5.5 DOWNGRADES. The purchaser may downgrade this agreement, or purchase fewer or less costly tuition units than the original commitment, at any time by submitting a signed, written request to the plan manager provided any such unit has not been partially redeemed.

**SECTION 6. TERMINATION, EXPIRATIONS, AND REFUNDS**

6.1 TERMINATION. The purchaser may terminate this agreement upon submission of a written request in good order, together with, at the option of the Board, a verification under oath that the information provided is true, accurate, and complete, provided that all amounts due under this agreement have been paid in full. Except as otherwise provided herein, only the purchaser may terminate the agreement.

6.1.1 MISREPRESENTATION. Where the Board determines the purchaser or the beneficiary has made any material misrepresentation on the application, including with respect to residency or age, or in any other communication with the Board regarding the plan, this agreement may be terminated by the Board, in its sole discretion.

6.1.2 DEFAULT. Failure to make an initial payment within 90 days of the first payment due date shall automatically terminate this agreement without further notice.

The Board may terminate this agreement, in its sole discretion and without notice to the purchaser, for:

a. failure to pay any amount due under this agreement after the expiration of any of the following grace periods:

i. Where no payment is received within 30, 60, or 90 days of the applicable due date, a delinquency notice will be delivered to the purchaser and a late fee will be assessed for each instance in accordance with SECTION 7;

ii. Where any uncured default extends past 90 days, a default notice may be delivered to the purchaser

converting this agreement to a pay-as-you-go plan within 30 days if the default is not properly cured; and

iii. Where any uncured default extends past 150 days, this agreement will automatically be converted to a pay-as-you-go plan for the number of tuition units that are paid-in-full at the time of such conversion, less any outstanding fees.

b. failure to make timely monthly payments under an installment plan arrangement for six of any 12-month period, consecutive or non-consecutive; or

c. failure of the purchaser to provide a valid Social Security number or tax identification number for the purchaser and beneficiary within 90 days of the first payment due date.

6.1.3 PLAN TERMINATION. The state may terminate the plan if it becomes financially infeasible, which would terminate this agreement; provided, however, that any agreement will not terminate and shall remain in full force and effect following a plan termination where, at the time of such termination, the beneficiary of the agreement:

a. has been accepted by or is enrolled at an eligible in-state college or eligible out-of-plan college; or

b. has a projected high school graduation date no later than three years following the date the plan is terminated.

On the termination of an agreement under this subsection, the purchaser may be issued a refund at the refund value of any unused tuition units. Earnings and losses stop accruing on the date the agreement terminates.

6.2 EXPIRATION. Failure by the purchaser to use tuition units or other plan benefits within the time specified in subsection 3.6.2 shall result in an automatic termination of this agreement and all associated benefits.

6.3 REFUNDS. Refunds shall be issued only to the purchaser. Except as otherwise provided herein, the purchaser may request a refund at the refund value of tuition units that have met the holding period requirement, or a refund at the reduced refund value for tuition units that have not met the holding period requirement. A refund should be issued within ten business days following receipt of a written request in good order from the purchaser on a form approved by the Board, together with, at the option of the Board, a verification under oath that the information provided is true, accurate, and complete. Any fees due and payable to the plan under SECTION 7 of this agreement shall be deducted from the amount of any such refund.

6.3.1 NEW AGREEMENTS. Agreements may be canceled for a refund of the amount paid at any time before the end of the enrollment period during which the application was made. Earnings and losses will not accrue on agreements established during an enrollment period and canceled before May 1 immediately following.

6.3.2 DEATH, DISABILITY, RECEIPT OF SCHOLARSHIP, OR ADMISSION TO A U.S. MILITARY ACADEMY. On the beneficiary's death, disability, receipt of a scholarship to attend an eligible educational institution, or admission to a U.S. military academy, the purchaser may elect to change the beneficiary pursuant to section 5.2 of this agreement or apply for a refund at the refund value of the tuition units. Proof of death, disability, scholarship, or admission to a U.S. military academy shall be in a form acceptable to the Board.

6.3.3 MISREPRESENTATION OR DEFAULT. Where an agreement is terminated for misrepresentation, failure to provide required information, or default, the purchaser may only be issued a refund at the reduced refund value of the tuition units.

6.3.4 EXPIRATION. On the expiration of tuition units that have met the holding period requirement, the purchaser may be issued a refund at the refund value of any unused tuition units and the plan manager will make a reasonable effort to locate the purchaser and process any such refund. Monies awaiting refund will remain in the plan to support the actuarial soundness of the plan. Earnings and losses stop accruing on the date the units expire.

6.3.5 LIMITATIONS. The number of purchaser-initiated refunds shall be limited to two in any 12-month period.

a. WITHDRAWAL, EXPULSION, OR DROPPED CLASSES. No adjustments may be made to an agreement after the plan has made a payment to an eligible educational institution. Any refund under such circumstances shall be made to the beneficiary by the eligible educational institution in accordance with that institution's applicable policy and procedures.

b. UGMA/UTMA ACCOUNTS. Notwithstanding any provision to the contrary herein, the custodian under a Uniform Gifts to Minors Act (UGMA) or Uniform Transfers to Minors Act (UTMA) account may only request a refund for the benefit of the UGMA/UTMA account beneficiary in accordance with applicable state laws and regulations.

## SECTION 7. PLAN FEES

The purchaser may be charged fees in amounts to be determined by the Board for the following:

7.1 APPLICATION FEE. The Board may impose a non-refundable application fee for the establishment of a plan account under this agreement and the maintenance of the actuarial soundness of the plan at a cost to be set annually by the Board not to exceed $25. This application fee may only be assessed once for the same purchaser and the same beneficiary combination, regardless of the number of agreements later established by the purchaser for that same beneficiary.

7.2 INTEREST ON INSTALLMENT PLANS. The Board may impose interest on tuition units purchased using an installment plan arrangement under subsection 4.3.3 of this agreement. The rate shall be set by the Board and imputed to the payments as indicated in the Academic Year Tuition Unit Pricing Schedule and Unit Value Redemption Guide published on the plan website effective as of the date of this agreement.

7.3 LATE FEES AND RETURNED PAYMENT FEES. The Board may impose fees for late or returned payments in an amount to be set annually by the Board.

## SECTION 8. COMPLAINTS AND DISPUTE RESOLUTION

The purchaser, including for the purposes of this section the beneficiary, agrees to first contact the plan manager to attempt to resolve any dispute arising from or related to this agreement in a spirit of cooperation. Failing to reach an accord informally, the purchaser agrees to follow the complaint resolution procedures in the Plan Description and herein and any rule or additional procedures adopted hereunder by the Board. A copy of the Board's current complaint procedures may be obtained by phone at 512-936-2094 or by email at ttf001@cpa.texas.gov.

8.1 SOVEREIGN IMMUNITY. Under chapter 107 of the Texas Civil Practice and Remedies Code, consent from the Texas Legislature is required before any suit or proceeding may be filed against the Board, the Comptroller, and/or the state. Neither the execution of this agreement by the Board nor any other conduct of any representative of the Board relating to this agreement shall be considered a waiver of sovereign immunity to suit or any other applicable immunity.

Comments or complaints may be forwarded to the Prepaid Higher Education Tuition Program, Office of the Comptroller of Public Accounts at P.O. Box 13407, Austin, Texas 78711-3407, or by calling 512-936-2064.

## SECTION 9. DISCLAIMERS AND MISCELLANEOUS PROVISIONS

9.1 EFFECTIVE DATE. This agreement shall become effective upon receipt by the Board or its designee of a completed application in good order, the application fee, if applicable, and the first payment due hereunder.

9.2 NO GUARANTEE OF ADMISSION OR GRADUATION. Nothing in this agreement shall be interpreted as a promise or guarantee that a beneficiary will be admitted to any public or private institution of higher education, be allowed to continue enrollment at any public or private institution of higher education, or graduate from any public or private institution of higher education.

9.3 FINANCIAL, TAX, AND LEGAL ADVICE. The purchaser understands and acknowledges:

9.3.1 that any tax and legal information in the Plan Description is a summary of the Board's understanding and interpretation of certain applicable tax rules and guidance and is not exhaustive;

9.3.2 that the purchaser and other contributors must consult his or her financial consultant, tax advisor, or legal counsel for any financial, tax, and legal advice related to that person's particular situation; and

9.3.3 that the Board, the plan, and the plan manager, and any of their respective affiliate parties, officers, directors, employees, agents, or representatives may not and do not give and have not given financial, tax, or legal advice to the purchaser, whether in the Plan Description or otherwise.

9.4 LIMITED LIABILITY. The purchaser understands and acknowledges:

9.4.1 that any claim by the purchaser or a beneficiary against the Board, the plan, or the plan manager, and any of their respective affiliate parties, officers, directors, employees, agents, or representatives must be made solely against the assets of the plan;

9.4.2 that the obligations of the plan under each agreement are limited obligations payable only from monies received from purchasers, other contributors, and any net earnings or losses of the plan, and no recourse shall be had by the purchaser or beneficiary against the Board, the plan, the plan manager, and any of their respective affiliate parties, officers, directors, employees, agents, or representatives, or against the state of Texas in connection with any obligation arising out of any agreement.

9.5 ACCURACY OF INFORMATION. The purchaser understands and acknowledges that the Board, the plan, and plan manager, and any of their respective affiliate parties, officers, directors, employees, agents, or representatives:

9.5.1 have used reasonable efforts to ensure that the information in the Plan Description, on the plan website, and in the Academic Year Tuition Unit Pricing Schedule and Unit Value Redemption Guide has been obtained from reliable sources and is accurate; and

9.5.2 shall not have any liability to the purchaser, beneficiary, or any other person because of any inaccurate or incomplete information.

9.6 FACTUAL DETERMINATIONS. All factual determinations regarding a purchaser's or beneficiary's residency, calculations of refunds or transfer values, assessment of fees, and any other determination regarding this agreement shall be at the sole discretion of the Board.

9.7 CONFLICTS. In the event of any inconsistency, conflict, or ambiguity between the terms of this agreement and the IRC, the Tex. Educ. Code, or the Tex. Admin. Code, the provisions of the IRC, the Tex.

Educ. Code, and the Tex. Admin. Code, in such order, shall govern. In the event of any inconsistency, conflict, or ambiguity between the terms of this agreement and the Plan Description, Academic Year Tuition Unit Pricing Schedule and Unit Value Redemption Guide, or other plan publication or document, the terms of this agreement shall prevail. Modifications may be made to this agreement by the Board and will be incorporated into the agreement as of the date of promulgation.

9.8 GOVERNING LAW. This agreement shall be construed in accordance with the laws of the state of Texas without regard to any conflict of laws provision. Venue for any action arising from or relating to the plan, this agreement, or any tuition units purchased hereunder shall be in the state district courts of Travis County, Texas.

9.9 SEVERABILITY. Where any clause or portion of this agreement is found to be invalid or unenforceable by a court of competent jurisdiction, that clause or portion will be severed from the agreement and the remainder of the agreement shall continue in full force and effect as if such clause or portion had never been included.

9.10 NO WAIVER. The failure to enforce or any delay in enforcement of any privileges, rights, defenses, remedies, or immunities available to the Board, the plan, or plan manager, or any of their respective affiliate parties, officers, directors, employees, agents, or representatives under this agreement or under applicable law shall not constitute a waiver of such privileges, rights, defenses, remedies, or immunities or be considered a basis for estoppel.

9.11 NOTICES. All notices, changes, options, and elections requested by the purchaser under this agreement must be in writing, signed by the purchaser, or submitted through the purchaser login portal and received by the Board or its designee in good order and in a format approved by the Board, together with, at the option of the Board, a verification under oath that the information provided is true, accurate, and complete. The Board is not responsible for the accuracy or completeness of such documentation. Unless otherwise provided by the Board, any notices, changes, options, and elections relating to the beneficiary will take effect as of the date such request is received by the Board or its designee. The purchaser understands and acknowledges that plan provisions may be amended by the Board from time to time to comply with state or federal laws, regulations, or rules or if the Board determines it is in the plan's best interests. The Board may notify the purchaser of such amendments, including by publication on the plan website, and the purchaser agrees to be bound thereby unless the purchaser promptly notifies the Board of his or her intent to terminate the agreement within 30 days of the plan's written notification of the amendment.