



TIPS Program Description

Background

The Board of Trustees of the Baccalaureate Education System Trust Fund Program (“Board”) has the authority to establish incentive plans to encourage Tennessee residents to participate in a §529 college savings program pursuant to Tenn. Code Ann. §49-7-805(4). The Board is further authorized pursuant to Tenn. Code Ann. §49-7-808(d) to establish an incentive plan for the benefit of low income individuals. Through this authorization, the Board promulgated rules to implement this incentive plan, which will be known as the Tennessee Investments Preparing Scholars (“TIPS”) matching grant incentive program. The rules are established in Chapter 1700-05-03 in the State of Tennessee Official Compilation of the Rules and Regulations. The TIPS Program is administered and managed by the Tennessee State Treasurer and the Tennessee Department of Treasury. In order to be eligible to participate in the TIPS program, a participant must meet the following qualifications: (1) the participant and the beneficiary must be Tennessee residents at the time that the application to participate in the TIPS program is filed; (2) the participant must open a TNStars® college savings account, to the extent that one is not already opened; (3) the participant must meet the income eligibility requirements of up to two hundred fifty percent (250%) of the federal poverty guidelines; and (4) the participant must apply to participate in the TIPS program (which includes opening a TNStars® college savings account) during the Qualifying Period of August 1, 2015 to June 30, 2016. When you (the TNStars® participant) are determined to be eligible to participate in the TIPS program, the State will provide a match amount. The match amount shall be up to four (4) times your contribution amount that does not exceed one hundred twenty-five dollars (\$125.00), meaning that the State will provide a maximum matching grant amount of five hundred dollars (\$500.00) for a maximum contribution amount of one hundred twenty-five dollars (\$125.00). A participant may make contributions to his or her TNStars® account in excess of one hundred twenty-five dollars (\$125.00); however, the participant will only receive the maximum matching grant

amount of five hundred dollars (\$500.00), and will not receive four (4) times the contribution amount in excess of one hundred twenty-five dollars (\$125.00). Please see the table under the heading "Eligible Contributions", which will indicate the matching grant amount for each contribution that does not exceed one hundred twenty-five dollars (\$125.00). Should you be determined eligible to participate in the TIPS program, you must contribute at least twenty-five dollars (\$25.00) during the August 1, 2015 to June 30, 2016 Qualifying Period in order to be eligible for any match. The Matching Grant Funds must be used to fund your beneficiary's qualified higher education expenses.

TNStars® Disclosure Brochure Variations

This *Program Description* contains variations to your *TNStars® Disclosure Brochure* that addresses how your account will be registered and how withdrawals will be handled. All the other terms in your *TNStars® Disclosure Brochure* that are not addressed in this *Program Description* will apply to your TNStars® TIPS Matching Grant Account. These differences ensure that the Matching Grant Funds are used only for the beneficiary's qualified higher education expenses, and that only the eligible TIPS program participant can have an ownership interest in the account.

Glossary of Common Terms

Household - means a group or individuals who are related by birth, marriage or adoption and who share a residence.

Qualifying Period - means the time period as set by the Board each year during which a participant must apply for the TIPS matching grant and make the qualifying grant-eligible contribution(s).

TNStars® Contribution Account - means the system record established by the participant in the TNStars® College Savings §529 Program which contains the amount of contributions maintained on behalf of a beneficiary plus the earnings or losses incurred thereon, including any withdrawals made from the Account. The TNStars® Contribution Account contains all participant contributions, that is, ones that are matching grant eligible and those that are not.

TNStars® TIPS Matching Grant Account - means the system record established in which the matching contribution is deposited by the TIPS Program and maintained for each beneficiary, plus earnings and losses incurred thereon, after all eligibility requirements for participation have been satisfied.

Grant-Eligible Contributions (minimum contribution)- means deposits made by the participant in a TNStars® Contribution Account within the Qualifying Period.

Matching Grant Funds - means the 4:1 ratio amount that is deposited by the TIPS Program for each beneficiary in the beneficiary's TNStars® TIPS Matching Grant Account after all eligibility requirements for participation in the matching grant incentive program have been satisfied.

Restrictions

For the Qualifying Period beginning August 1, 2015 and ending June 30, 2016, program eligibility is limited to 2,000 eligible applicants. The Matching Grant Funds will be awarded based on a first-come, first-served basis.

A participant may only have one beneficiary on each TNStars® TIPS Matching Grant Account.

A participant may not have more than one (1) account in the same beneficiary's name.

A participant may not remove his or her name from a TNStars® TIPS Matching Grant Account and substitute it with another participant's name; however, a participant's name may be removed from an account upon the participant's death, divorce, or permanent disability.

A beneficiary who has been designated as a beneficiary on more than one (1) TNStars® Contribution Account by two (2) or more TNStars® participants shall only be eligible for one (1) TIPS matching grant amount during each Qualifying Period and shall not be eligible to receive another beneficiary's TIPS matching grant amount through a change of beneficiary during that Qualifying Period.

A participant may change the beneficiary on his or her TNStars® Contribution Account at any time but may only change the beneficiary on his or her TNStars® TIPS Matching Grant Account one (1) time. To change the beneficiary for the TNStars® Contribution Account, please refer to the TNStars® Disclosure Brochure. To change the beneficiary on the TNStars® TIPS Matching Grant Account, please complete the TIPS Change of Beneficiary Form and submit the completed form to TIPS. The new beneficiary on the TNStars® Contribution Account that is also the new beneficiary on the TNStars® TIPS Matching Grant Account will receive the participant's contributions and the TIPS matching grant amount from the accounts that were in the previous beneficiary's name, unless the new beneficiary already has an existing account with another participant.

Rejection of Application or Forfeiture of Matching Contribution

An application for a Matching contribution will be rejected by the Board if any of the following occurs:

- The Participant fails to provide all the information required in the rules governing the TIPS Matching Grant Incentive Program;
- The Participant fails to meet the eligibility requirements to participate in the TIPS Matching Grant Incentive Program;
- The Purchaser makes a misrepresentation in the application for the Matching contributions;
- The requisite Minimum contribution was not made to the Account during the Qualifying Period.

If, at any time, the Board determines that a Participant made a misrepresentation in an application for a Matching contribution that resulted in a Matching contribution being made to an Account, the Matching contribution will be forfeited and returned to the Board. All of the Matching contribution will also be forfeited if a portion of the Matching contributions is used for non-qualified withdrawals.

Eligibility

An eligible participant must be a resident of the state of Tennessee and live in a Household with the beneficiary for whom the matching grant is being requested. The total Federal Adjusted Gross Income for all members of the Household must be less than the amount(s) listed below:

2014 Total Federal Adjusted Gross Income Persons in Family or Household

**1 = \$29,175
2 = \$39,325
3 = \$49,475
4 = \$59,625
5 = \$69,775
6 = \$79,925
7 = \$90,075
8 = \$100,225**

2015 Total Federal Adjusted Gross Income* Persons in Family or Household

**1 = \$29,425
2 = \$39,825
3 = \$50,225
4 = \$60,625
5 = \$71,025
6 = \$81,425
7 = \$91,825
8 = \$102,225**

For family units of more than eight (8) members, add \$4,060 for each additional person.

For family units of more than eight (8) members, add \$4,160 for each additional person

*Beginning in January 1, 2016 through June 30, 2016, the 2015 tax return may be provided for income verification. As such, from January 1, 2016 until June 30, 2016, TNStars® participants may use either the 2014 tax return or the 2015 tax return.

Each TNStars® participant must apply each year for the matching grant using the total Household income from the stated tax year for the Qualifying Period irrespective if you have been approved in the past. Applications are processed on a first-come, first-served basis. Each beneficiary may receive only one (1) matching grant per year, but there is no limit to the number of beneficiaries from the same Household that can be eligible for TIPS. The TNStars® participant cannot be claimed as the dependent on someone else’s federal income tax return.

How to Apply for TIPS

To apply to TIPS, you must open a TNStars® account. During the Qualifying Period, you must also submit an application to the TIPS Program for the matching grant. Once you are approved to participate in the TIPS program for the Qualifying Period, (and contribution criteria is met) we will open a TNStars® TIPS Matching Grant Sub-Account based on your *TNStars® Application information* along with the *TIPS Program Application*. The TNStars® account that you establish will be registered as your “TNStars® Contribution Account,” and it will hold your grant-eligible contributions (and all your other TNStars® contributions, including earnings or losses incurred). The other Sub-Account, the TNStars® TIPS Matching Grant Sub- Account, will be registered as your “Match Account,” and it will hold the matching grant funds that you may receive from the State of Tennessee after the end of the Qualifying Period (June 30th of each year). The beneficiary that you designate will be used for both accounts, and the TIPS Matching Grant Funds will be invested in the TNStars® TIPS age-based option commensurate with the age of the beneficiary after the end of the Qualifying Period.

Eligible Contributions

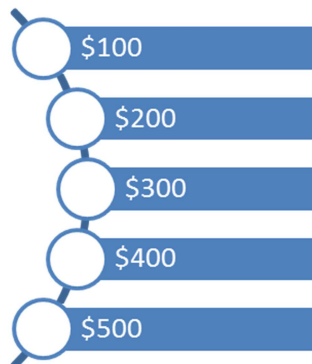
You may contribute as much as you want to your TNStars® Contribution Account based on your budget and college savings goals. You are not limited to contributing the minimum contribution in order to receive the matching grant amount. During the Qualifying Period, you will be able to make your grant-eligible contributions to your TNStars® Contribution Account. If you contribute at least \$125 during the Qualifying Period, you will receive the maximum grant match amount of \$500 deposited into your TNStars® TIPS Matching Grant Account.

The following chart illustrates the contribution thresholds for each matching grant amount. For example, if you contribute seventy –five dollars (\$75.00) during the Qualifying Period, you will be eligible for three hundred dollars (\$300.00) in matching grant funds. Contributions are not required to be made in the illustrated increments. The match grant amount is based on the threshold amount of the contribution. It is not a dollar-to-dollar match for contributions.

TNStars® Contribution Account Threshold



TIPS Matching Grant Amount



Contributions must be made by the TNStars® Contribution Account participant.

How the Match Occurs

At the end of each Qualifying Period (June 30th), the program will review contributions to your TNStars® Contribution Account to determine the amount of matching grant funds that you are eligible to receive and make a deposit into your TNStars® TIPS Matching Grant Sub-Account after the end of the Qualifying Period. TIPS matching grant funds will be invested in the TNStars® TIPS age-based options commensurate with the investment band that will be based on the age of the beneficiary after the end of the Qualifying Period.

Withdrawals of the Matching Grant Funds

Only qualified withdrawals are allowed from the TNStars® TIPS Matching Grant Account. You will not be allowed to make a non-qualified withdrawal from your TNStars® TIPS Matching Grant Account. A non-qualified withdrawal would be a withdrawal of monies that would not go toward a beneficiary's qualified higher education expenses. To make a withdrawal from your Match Account, you must submit a Withdrawal Form to the TIPS program requesting payment of Qualified Higher Education Expenses at an Eligible Educational Institution. You will be asked to provide copies of your receipts when requesting a withdrawal to pay for qualified education expenses of the beneficiary, unless the withdrawal is paid directly to the educational institution. If payment is to be made directly to the educational institution, a copy of the invoice from the institution is required. Requests for withdrawals must be submitted in writing on the *TIPS Withdrawal Form* that can be obtained by visiting the TNStars® website, www.tnstars.com/TIPS.

Tax Issues

The balance in your TNStars® Matching Grant Account for a designated beneficiary, which will be comprised of the matching grant amount from the State and any earnings or losses on that amount, will be treated as earnings. Any nonqualified withdrawals from the TNStars® Matching Grant Account may be subject to federal income taxation and may be subject to a ten percent (10%) federal tax penalty. Please consult with your tax professional about the tax consequences relative to your participation in the TIPS matching grant incentive program.