



# *Education Savings Account*



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1-800-SATURNA

## Table of Contents

QuickStart to Opening an ESA	Page 2
The Saturna Advantage	Page 3
Contributions	Page 4
Termination and Responsible Party	Page 4
Distributions	Page 5
HOPE Scholarship Credit	Page 6
Lifetime Learning Credit	Page 6
Additional Information	Page 7
Education Savings Account Application	Page 8
IRS Form 5305-E	Page 9
ESA Transfer Form	Page 11

# Quickstart to education savings.

## Coverdell Education Savings Accounts

Named Education IRAs when first established in 1998, these accounts were renamed Coverdell Education Savings Accounts (ESA) in 2001. The ESA is a tax-favored account for the purpose of saving for education expenses. ESAs allow contributions for any child under age 18, and tax-free distributions for a broad variety of education expenses up until age 30. Annual contributions to the ESA may not exceed \$2,000 (eligible contributions may be less if the taxpayer's income exceeds certain thresholds). All contributions must be in cash. Like an IRA, an ESA will lose its tax-exempt status if it is used in a prohibited transaction.

## To Open a Saturna ESA

- A** Complete the Saturna ESA application (page 8), giving information about the account's registration and investment directions.
- B** Read the fund prospectuses and other information about various Saturna investment options.
- C** Create an Education Savings Account by filling out the IRS Form 5305-E included in this brochure (page 9).
- D** Write your ESA contribution check(s), payable to each Fund in which you are investing, and mail to Saturna with your Form 5305-E (page 9) and your application (page 8).

**NOTE:** If you wish to purchase non-Saturna affiliated mutual funds, stocks, bonds, or options for your ESA, be sure to fill out a Saturna Brokerage Services application.

# The Saturna Advantage

Open your ESA with Saturna and take advantage of:

## ▲ Wide Range of Investment Choices

We offer a selection of Saturna no-load mutual funds with a variety of investment objectives. By investing in more than one fund, you can tailor your ESA to reflect your own risk and return objectives. In addition, in a self-directed Saturna Brokerage ESA, you can purchase stocks, bonds, fixed income securities including CDs and U.S. Treasuries, plus a wide range of unaffiliated mutual funds.

## ▲ Personalized Service

At Saturna Capital, we help make saving for education easy. Our staff is dedicated to helping you with your questions. Your trained account representative will help you customize your education savings strategy. You can even invest automatically from your bank account to your Saturna mutual fund ESA. Any way you choose to invest, you'll get one consolidated statement to track your ESA portfolio.

## ▲ No ESA Fees with Saturna's No-Load Mutual Funds

For ESAs invested in Saturna's no-load mutual funds, there are no ESA fees. There are no fees on contributions or distributions. Trades using self-directed brokerage ESAs are subject to commissions (you can find the commission schedule at [www.saturna.com/sbs/](http://www.saturna.com/sbs/) and in the Saturna Brokerage Services brochure).

## About Saturna Capital

*"Value for your money"*

Saturna Capital Corporation was founded in 1989 by professionals with extensive experience in the investment business. The firm is primarily owned by employees and their families. Firm management is guided by seven core values.

We are:

- ▲ Top-quality professionals
- ▲ Uncompromisingly loyal to clients
- ▲ Risk managers
- ▲ Integrated business operators
- ▲ Educators
- ▲ Prudent entrepreneurs
- ▲ Community contributors

We have helped individuals and institutions build wealth, earn income and preserve capital.

Our deep-rooted belief in value investing shines through in the quality of our investments. We don't follow trends, we analyze opportunities. In choosing investments, our professionals cover over 180 industries and analyze over 5,000 equities.

Years of experience have given our firm financial strength and stability. Most important to our success, however, is achieving success for our clients. We believe that our clients' interest always come first. Perhaps this is why so many of our client relationships last so long.



# ESA Investing Guidelines

## Contributions

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Aggregate contributions that may be made by all contributors to one (or more) ESA established on behalf of any particular beneficiary are limited to \$2,000 for each year. Corporations, tax-exempt organizations and other entities may make contributions to an unlimited number of parties' ESAs.

The maximum income that joint tax return filers can report and still make a full contribution to an ESA is \$190,000. For incomes up to \$220,000, lesser contributions can be made. For single filers, the full contribution income limit is \$95,000, phasing out at \$110,000.

Contributions to an ESA may be made up to April 15th (the tax return due date, not including extensions) for a contribution to apply to the preceding year. Any contribution to an ESA is treated as a gift from the contributor to the beneficiary at the time of the contribution, meaning annual contributions are subject to the gift tax exclusion and are excludable for purposes of the generation-skipping transfer tax.

A 6% excise applies to excess contributions. Contributions are considered excess when they are:

- More than a total of \$2,000 per designated beneficiary per year;
- Made in a year when the contributor's adjusted gross income tops the limits for income eligibility;
- Contributed to a designated beneficiary who is 18 years of age or older;
- Made in violation of applicable rollover rules.

Excess contributions, if corrected in a timely manner, will avoid the penalty.

## Termination

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The balance remaining in an ESA must be distributed within 30 days after a beneficiary reaches age 30. Also, distribution of the account balance of a deceased beneficiary must be made within 30 days after death of a beneficiary under age 30. Where such a distribution is required, the balance at the close of the 30-day period is deemed to be distributed at that time.

## Responsible Party

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The person who controls the ESA is the "responsible individual" as named in the account agreement. The responsible party typically is the parent or guardian of the beneficiary.

## Distributions

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Distributions from ESAs are tax-free provided that they are used to pay the beneficiary's qualified education expenses. Tuition, fees, books, supplies, and equipment required for attendance at an eligible educational institution are qualified expenses. The term includes room and board expenses, if (1) the beneficiary is enrolled in a program leading to a recognized educational credential and (2) the student carries at least one-half the normal full-time class load for a chosen course of study.

**You may also use the Education Savings Account to pay for elementary and secondary expenses at private, public, or religious schools.** This includes academic tutoring, computer technology or equipment (such as internet services), room and board, transportation, uniforms, and supplemental items and services (including extended day care). Additional exceptions are available to special needs beneficiaries. Qualified education expenses are reduced by the amount of any scholarships or financial aid received.

Taxpayers may claim the HOPE Scholarship/American Opportunity Education Credit or the Lifetime Learning Credit in the same year that a tax-free distribution is made from an ESA. However, the distributions cannot cover the same education expense.

Because contributions to ESAs are treated as gifts, distributions from the accounts are made only to beneficiaries. Distributions of ESAs are excludable from gross income to the extent that the distribution does not exceed the qualified education expenses incurred by the beneficiary during the year in which the distribution is made. Distributions are tax exempt regardless of whether the beneficiary attends an education institution on a full-time, half-time, or less than half-time basis.

Distributions in amounts greater than allowed tax-free are taxed under IRS Code Section 72 annuity rules. There is an additional 10% tax imposed on any taxpayer who receives an ESA distribution that is includable in gross income, with certain exceptions.

Amounts remaining in an Education Savings Account may be rolled over into another ESA for the education of another beneficiary in the beneficiary's family. Similarly, any change in beneficiary does not constitute a distribution if the new beneficiary is a member of the family of the original beneficiary. A person's family members are determined under IRS Code Section 529(e)(2). Alternatively, assets remaining in the ESA may be distributed to the original beneficiary who must include the earnings component of the distribution in income and pay a 10% penalty.

To withdraw funds from an ESA, please use an ESA Distribution Form available on our website, [www.saturna.com](http://www.saturna.com), or by calling us toll-free at 800/SATURNA.

“ Upon the subject of education, not presuming to dictate any plan or system respecting it, I can only say that I view it as the most important subject which we as a people may be engaged in. ”

-Abraham Lincoln

# Scholarships

## HOPE Scholarship Credit

### American Opportunity Credit

While not part of the Education Savings Account, the HOPE Scholarship Credit (renamed American Opportunity Credit in 2009) does interrelate with the ESA. Taxpayers may be able to claim a nonrefundable HOPE Scholarship/American Opportunity Education Credit against their federal income taxes. The credit is claimed for the qualified tuition and related expenses of each student in the taxpayer's family who is enrolled at least half-time in one of the first two years of post secondary education and who is enrolled in a program leading to a recognized educational credential. The maximum credit a taxpayer may claim for a taxable year is \$2,500 multiplied by the number of students in the family who meet the enrollment criteria. The amount a taxpayer may claim is gradually reduced for taxpayers with modified adjusted gross incomes above \$80,000 (\$160,000 for joint filers), and phased out at \$90,000 (\$180,000 for joint filers). See IRS Publication 970 for more information.


## Lifetime Learning Credit

Similarly, the Lifetime Learning Credit also interrelates with the ESA. Taxpayers may be able to claim a nonrefundable Lifetime Learning Credit against their federal income taxes. The credit is claimed for the qualified tuition and related expenses of each student in the taxpayer's family who is enrolled in eligible education institutions. Unlike the HOPE Scholarship/American Opportunity Credit, students are not required to be enrolled at least half-time in one of the first two years of post secondary education. The amount that may be claimed as a credit is equal to 20% of the taxpayer's first \$10,000 of out-of-pocket qualified tuition and other expenses for all the students in the family. The amount a taxpayer may claim is gradually reduced for taxpayers with modified adjusted gross incomes above \$50,000 (\$100,000 for joint filers), and phased out at \$60,000 (\$120,000 for joint filers).

## A Caution

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Despite the tax advantages, lower- and middle-income parents who expect their child will be eligible for financial aid in college should think twice about taking advantage of Education Savings Accounts. You could end up losing more in financial aid than you'll save in taxes. That's because an Education Savings Account must be set up in the child's name. In determining how much a family can afford to contribute to the cost of college, financial aid formulas count assets held in a child's name much more heavily than assets in the parent's name.



“ Do not go where the path may lead; go instead where there is no path and leave a trail. ”

-Ralph Waldo Emerson



# Education Savings Account Application



## 1 Grantor (Responsible Party): Mr. Mrs./Ms. Dr.

\_\_\_\_\_|\_\_\_\_\_|\_\_\_\_\_

First Name M.I. Last Name

Date of Birth (MM-DD-YYYY):

□□-□□-□□□□

Social Security Number:

□□□□-□□-□□□□

Physical / Street Address (required):

\_\_\_\_\_

\_\_\_\_\_|\_\_\_\_\_|\_\_\_\_\_

City State Zip

Mailing Address (optional):

\_\_\_\_\_

\_\_\_\_\_|\_\_\_\_\_|\_\_\_\_\_

City State Zip

Daytime Telephone:

(□□□)□□□-□□□□

Evening Telephone:

(□□□)□□□-□□□□

Mail completed forms and contributions to:

**Saturna Capital**  
P.O. Box N  
Bellingham, WA 98227-0596

**Note:** For Saturna Brokerage Accounts, a separate, additional application is required. Please see the Saturna Brokerage brochure for more details.

Email:

\_\_\_\_\_

**Make sure to complete all 6 steps or your application cannot be processed.**

**Be sure to read the prospectus of any mutual fund you select.**

## 2 Designated Beneficiary:

\_\_\_\_\_|\_\_\_\_\_|\_\_\_\_\_

First Name M.I. Last Name

Date of Birth (MM-DD-YYYY):

□□-□□-□□□□

Social Security Number:

□□□□-□□-□□□□

Street Address:

\_\_\_\_\_

\_\_\_\_\_|\_\_\_\_\_|\_\_\_\_\_

City State Zip

Relationship:

\_\_\_\_\_

*In the event of my death or incapacity while the designated beneficiary is a minor under state law, the following person shall become the responsible party:*

\_\_\_\_\_

## 3 Initial Investment Selection (\$100 Minimum Per Fund):

<input type="checkbox"/> Amana Income	\$	_____
<input type="checkbox"/> Amana Growth	\$	_____
<input type="checkbox"/> Amana Developing World	\$	_____
<input type="checkbox"/> Sextant Growth	\$	_____
<input type="checkbox"/> Sextant International	\$	_____
<input type="checkbox"/> Sextant Core	\$	_____
<input type="checkbox"/> Sextant Short-Term Bond	\$	_____
<input type="checkbox"/> Sextant Bond Income	\$	_____

**Please send separate checks payable to each fund selected.**

Initial Contribution for tax year 20\_\_\_\_\_ .

**Begin automatic investing (voided check attached):**  
\$25 Minimum Per Fund after initial contribution.

<input type="checkbox"/> Amana Income	\$	_____
<input type="checkbox"/> Amana Growth	\$	_____
<input type="checkbox"/> Amana Developing World	\$	_____
<input type="checkbox"/> Sextant Growth	\$	_____
<input type="checkbox"/> Sextant International	\$	_____
<input type="checkbox"/> Sextant Core	\$	_____
<input type="checkbox"/> Sextant Short-Term Bond	\$	_____
<input type="checkbox"/> Sextant Bond Income	\$	_____

every \_\_\_\_\_

(Specify period & date: i.e. "month on 15th")

**4 Identification.** Please attach a legible photocopy of the **Grantor's** driver's license, passport or other government-issued identity document. Your account will not be opened without proper documentation.

**5 Complete IRS Form 5305-E on the next page.** Please be sure to sign the back. Application is incomplete if not included.

## 6 Signature

I have full right, power, and authority and legal capacity to establish an Education Savings Account and to make the investments selected. I understand and agree to all terms and conditions set forth in this Saturna Capital Education Savings Account Application. I have created the ESA (Educational IRA) by completing IRS Form 5305-E, which is attached to this Application. I acknowledge that I have received and read the current Prospectus(es) of any fund(s) being purchased. I understand no share certificates will be issued. I understand that my property may be transferred to the appropriate state if no activity occurs in the account within the time period specified by state law. I certify, under penalties of perjury, that I am not subject to backup withholding under the provisions of section 3406(a)(1)(C) of the Internal Revenue Code.

**Signed:** \_\_\_\_\_ **Date:** \_\_\_\_\_

Saturna Use Only

Accepted by: \_\_\_\_\_ Date: \_\_\_\_\_



Form **5305-E**  
 (Rev. March 2002)  
 Department of the Treasury  
 Internal Revenue Service

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

**Do not file**  
 with the Internal  
 Revenue Service

Name of grantor	Grantor's identification number	Check if amendment <input type="checkbox"/>
Name of designated beneficiary	Designated beneficiary's identification number	
Address of designated beneficiary	Date of birth of designated beneficiary	
Name of responsible individual (generally the parent or guardian of the designated beneficiary)		
Address of responsible individual		
Name of trustee Saturna Trust Company	Address or principal place of business of trustee 1300 N. State Street, Bellingham, WA 98225	

The grantor named above is establishing a Coverdell education savings trust account under section 530 for the benefit of the designated beneficiary exclusively to pay for the qualified elementary, secondary, and higher education expenses, within the meaning of section 530(b)(2), of such designated beneficiary.

The grantor has assigned the trust ..... dollars (\$ ..... ) in cash.  
 The grantor and the trustee make the following agreement:

**Article I**

The trustee may accept additional cash contributions provided the designated beneficiary has not attained the age of 18 as of the date such contributions are made. Contributions by an individual contributor may be made for the tax year of the designated beneficiary by the due date of the beneficiary's tax return for that year (excluding extensions). Total contributions that are not rollover contributions described in section 530(d)(5) are limited to \$2,000 for the tax year. In the case of an individual contributor, the \$2,000 limitation for any year is phased out between modified adjusted gross income (AGI) of \$95,000 and \$110,000. For married individuals filing jointly, the phase-out occurs between modified AGI of \$190,000 and \$220,000. Modified AGI is defined in section 530(c)(2).

**Article II**

No part of the trust account funds may be invested in life insurance contracts, nor may the assets of the trust account be commingled with other property except in a common trust fund or a common investment fund (within the meaning of section 530(b)(1)(D)).

**Article III**

1. Any balance to the credit of the designated beneficiary on the date on which he or she attains age 30 shall be distributed to him or her within 30 days of such date.
2. Any balance to the credit of the designated beneficiary shall be distributed within 30 days of his or her death **unless** the designated death beneficiary is a family member of the designated beneficiary and is under the age of 30 on the date of death. In such case, that family member shall become the designated beneficiary as of the date of death.

**Article IV**

The grantor shall have the power to direct the trustee regarding the investment of the above-listed amount assigned to the trust (including earnings thereon) in the investment choices offered by the trustee. The responsible individual, however, shall have the power to redirect the trustee regarding the investment of such amounts, as well as the power to direct the trustee regarding the investment of all additional contributions (including earnings thereon) to the trust. In the event that the responsible individual does not direct the trustee regarding the investment of additional contributions (including earnings thereon), the initial investment direction of the grantor also will govern all additional contributions made to the trust account until such time as the responsible individual otherwise directs the trustee. Unless otherwise provided in this agreement, the responsible individual also shall have the power to direct the trustee regarding the administration, management, and distribution of the account.

**Article V**

The "responsible individual" named by the grantor shall be a parent or guardian of the designated beneficiary. The trust shall have only one responsible individual at any time. If the responsible individual becomes incapacitated or dies while the designated beneficiary is a minor under state law, the successor responsible individual shall be the person named to succeed in that capacity by the preceding responsible individual in a witnessed writing or, if no successor is so named, the successor responsible individual shall be the designated beneficiary's other parent or successor guardian. Unless otherwise directed by checking the option below, at the time that the designated beneficiary attains the age of majority under state law, the designated beneficiary becomes the responsible individual. If a family member under the age of majority under state law becomes the designated beneficiary by reason of being a named death beneficiary, the responsible individual shall be such designated beneficiary's parent or guardian.

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

Article VI

The responsible individual  may or  may not change the beneficiary designated under this agreement to another member of the designated beneficiary's family described in section 529(e)(2) in accordance with the trustee's procedures.

Article VII

- 1. The grantor agrees to provide the trustee with all information necessary to prepare any reports required by section 530(h).
2. The trustee agrees to submit to the Internal Revenue Service (IRS) and responsible individual the reports prescribed by the IRS.

Article VIII

The Custodian or Trustee may amend this Agreement in any respect (including retroactively) so that the Agreement may conform with applicable provisions of the Internal Revenue Code ("Code"), or with any other applicable law as in effect from time to time, or to make such other changes to this Agreement as the Custodian or Trustee deems advisable.

Article IX

The Trustee or Custodian may be removed or may resign at any time. As a condition of resignation or removal, a successor Trustee or Custodian shall be appointed, provided that any such successor shall satisfy the requirements of the Code.

Signature lines for Grantor, Trustee, and Witness, each with a corresponding Date line. Includes a note: (Use only if signature of the grantor or the trustee is required to be witnessed.)

General Instructions

Section references are to the Internal Revenue Code unless otherwise noted.

Purpose of Form

Form 5305-E is a model trust account agreement that meets the requirements of section 530(b)(1) and has been pre-approved by the IRS.

If the model account is a custodial account, see Form 5305-EA, Coverdell Education Savings Custodial Account.

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

Definitions

Trustee. The trustee must be a bank or savings and loan association, as defined in section 408(n), or any person who has the approval of the IRS to act as trustee.

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

Designated beneficiary. The designated beneficiary is the individual on whose behalf the trust account has been established.

Family member. Family members of the designated beneficiary include his or her spouse, child, grandchild, sibling, parent, niece or nephew, son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law, and the spouse of any such individual.

Responsible individual. The responsible individual, generally, is a parent or guardian of the designated beneficiary. However, under certain circumstances, the responsible individual may be the designated beneficiary.

Identification Numbers

The grantor and designated beneficiary's social security numbers will serve as their identification numbers. If the grantor is a nonresident alien and does not have an identification number, write "Foreign" in the block where the number is requested.

identification number is the identification number of his or her Coverdell ESA. An employer identification number (EIN) is required only for a Coverdell ESA for which a return is filed to report unrelated business income.

Specific Instructions

Note: The age limitation restricting contributions, distributions, rollover contributions, and change of beneficiary are waived for a designated beneficiary with special needs.

Article X. Article X and any that follow may incorporate additional provisions that are agreed to by the grantor and trustee to complete the agreement. They may include, for example, provisions relating to: definitions, investment powers, voting rights, exculpatory provisions, amendment and termination, removal of the trustee, trustee's fees, state law requirements, treatment of excess contributions, and prohibited transactions with the grantor, designated beneficiary, or responsible individual, etc.

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



# ESA Transfer



If you wish to transfer an existing ESA to Saturna Capital, please complete this page. Attach a copy of your most recent statement from your existing ESA custodian. To transfer an ESA held by a brokerage firm to Saturna Brokerage Services you must also have a Saturna Brokerage Account. Please complete the Brokerage Transfer of Assets form as well as the Saturna Brokerage Account application.

Mail completed form(s) and other documents to: **Saturna Capital, P.O. Box N, Bellingham, WA 98227-0596**

## Description of ESA to be transferred:

Account Name:

Address:

Primary Social Security or Tax ID Number:

Account Number:

Name of Custodian Firm currently holding your account:

Custodian Firm's Address:

Custodian Firm's Phone Number:

## To Current Custodian:

I authorize you to (choose only one option):

Liquidate (sell) ALL Assets

Liquidate (sell) PART \$

Transfer ALL shares in kind\*

Transfer PART #  or  % of shares in kind\*

of  (fund name or symbol)

to the Saturna Capital ESA I have established with Saturna Trust Company (EIN 26-3918998), a qualified Trustee under IRS Regulation 1.401-12(n). Please identify to Saturna the amount of contributions made for the current year (if any).

**Note: Liquidation for rollover/transfer is a non-taxable event.**

**Proceeds should be mailed to Saturna Trust Company as Trustee.**

**\*Brokerage account required for non-Saturna mutual funds.**

## Signature:

Account Owner

Date

MEDALLION SIGNATURE GUARANTEE

## Investment Instructions:

Open a new Saturna Capital IRA for me. I have completed the Saturna ESA Application and enclosed a copy of a recent statement of the account to be transferred.

Consolidate my ESAs by depositing proceeds from this transfer to my existing Saturna Capital ESA.

Saturna Account Number (if available):

## Allocation:

Amana Income \$  or  %

Amana Growth \$  or  %

Amana Developing World \$  or  %

Sextant Growth \$  or  %

Sextant International \$  or  %

Sextant Core \$  or  %

Sextant Short-Term Bond \$  or  %

Sextant Bond Income \$  or  %

Saturna Brokerage\* \$  or  %

\*Requires brokerage account.

## Custodian Acceptance:

Saturna Trust Co. is willing to accept the assets described herein and credit them to the selected Saturna Capital ESA for which we are Trustee/Custodian. Please liquidate and transfer from fiduciary to fiduciary as authorized above.

Mail check to: **Education Savings Accounts, Saturna Capital, Box N, Bellingham WA 98227-0596.**

Saturna Use Only

Accepted by: \_\_\_\_\_ Date: \_\_\_\_\_



1300 North State Street  
Bellingham, WA 98225

[www.saturna.com](http://www.saturna.com)

Toll free: (800) SATURNA  
(800) 728-8762

Ph: (360) 594-9900

Fax: (360) 734-0755

For automated assistance, including prices:  
1(888) 732-6262

*Saturna no-load mutual funds are distributed by Saturna Brokerage Services, Inc., a wholly-owned subsidiary of Saturna Capital. Please consider an investment's objectives, risks, expenses and charges carefully before investing. To obtain prospectuses that contain this and other information about Saturna's no-load mutual funds, please call (800) SATURNA or visit [www.saturna.com](http://www.saturna.com). Please read the prospectuses carefully before investing.*