Imagine the Possibilities
Dear College Saver:

Thank you for your interest in the Texas College Savings Plan®. As a parent, I know you’re committed to doing all you can to help our children reach their full potential. An increasingly important part of that effort is providing the resources for a college education.

We’re pleased to offer a plan that allows you to save for rising college expenses. The Texas College Savings Plan offers tax advantages, flexibility and diversified investment options to help you save for qualified higher education expenses.

The Texas College Savings Plan is administered for the state by the Texas Prepaid Higher Education Tuition Board, which I chair, and professionally managed by NorthStar Financial Services Group, LLC. Earnings and withdrawals for qualified educational expenses are tax-free and can be used at colleges and universities across the U.S. as well as at select schools overseas.

A college savings plan is important, and choosing the right one is essential. With the Texas College Savings Plan, you can give your child a head start toward a better future for themselves—and our state.

If you have any questions or would like more information about the Texas College Savings Plan, please visit our website at www.texascollegesavings.com or call us toll-free at 1.800.445.GRAD (4723), option #3.

I encourage you to study this booklet to see how the Texas College Savings Plan can help you reach your goals. We look forward to helping you.

Sincerely,

Glenn Hegar
Texas Comptroller of Public Accounts
Chairman, Texas Prepaid Higher Education Tuition Board
The Potential Benefits of the Texas College Savings Plan

The possibilities for your child are endless, and the Texas College Savings Plan can make it easier to save more for the education he or she deserves.

Tax-advantaged savings may help your account grow

Unlike a taxable account, the assets in your Plan account can compound tax free, giving you greater potential for growth over the long term. What’s more, you can withdraw the money federal tax free, as long as it’s used to pay for qualified higher educational expenses. When withdrawals are used for other purposes, any earnings are subject to federal income taxes plus an additional 10% federal tax penalty and any state and local income tax, if applicable. Please check with your tax advisor.

It doesn’t take a lot to get started

Any U.S. resident 18 years of age or older, regardless of income or state residency, can open or contribute to a Plan account, including parents, grandparents, aunts, uncles or even family friends. And they can do so for as little as $25 per portfolio to start and $25 per portfolio for subsequent investments.

You may also choose to open your account with only $15 per portfolio when you set up an automatic purchase plan to transfer money directly from your bank account or from your paycheck. Just remember, systematic investing does not assure a profit and does not protect against loss in declining markets.

Use your savings at schools throughout the U.S.—and around the world

You can use your savings to pay for higher education at most accredited institutions in the U.S., including vocational schools, two- and four-year colleges and graduate schools, as well as at some foreign institutions.

Save more. Take advantage of high account balance maximum

The combined account balance per beneficiary for the Plan and all other Texas 529 programs may reach as high as $370,000. During any time an account exceeds this limit, earnings can continue to accrue, though new contributions will not be allowed.

The Benefits of an Early Start

Opening a Texas College Savings Plan account with $5,000 and adding just $100 each month until your child turns 18, can help you take advantage of the power of compounding—earnings generated from previous earnings. This may potentially increase your account balance over time. And the earlier you start, the bigger your account may potentially grow.

Please remember, when you invest in securities, your account value will fluctuate and there’s always the possibility of losing money.

This hypothetical illustration assumes an initial investment of $10,000 and a 5% annual rate of return. The taxable account assumes a 28% federal tax rate. The illustration does not represent the performance of any specific account or investment and does not reflect any plan fees or sales charges that may apply. If such fees or sales charges had been taken into account, returns would have been lower.
Gift tax planning advantages make it easy to give

You can contribute up to $15,000 ($30,000 for married couples) per year, per beneficiary, or up to $75,000 ($150,000 for married couples) in a single five-year period—without triggering gift taxes. In addition, contributions treated as completed gifts are excluded from an account owner’s estate, making the Plan an attractive option for grandparents looking for a way to contribute to a grandchild’s dreams.

You retain control and direct how funds are used

The Plan’s assets remain in your name for the life of the account. If your beneficiary decides not to pursue a higher education, you can change the beneficiary to another qualified family member without penalty, keep the account for future use or make a nonqualified withdrawal. As stated on page 2, nonqualified withdrawals are subject to taxes and penalties.

Choose from a wide range of investments

The Plan offers a wide range of portfolios with investments from T. Rowe Price, Artisan, Vanguard, DFA, Dodge & Cox and The Dreyfus Corporation. Once you select how to invest, these teams of experienced professionals manage your assets with care. Of course, investments in the Plan are market-based and may rise or fall in value. The Plan offers portfolios with low fees. As stated in the current Plan Description, total fees for the portfolios range from 0.60% to 1.00%, including six index age-based portfolios with total fees that range from 0.60% to 0.62%. Fees are subject to change.

Tailored Investments from Industry Leaders

Saving for higher education costs often means selecting investments—a task that can seem overwhelming for some. However, the Texas College Savings Plan makes it easier by offering two investment options—Age-based and Static—tailored to different growth requirements, situations and risk tolerances. Portfolios include different investment allocation strategies from industry leaders T. Rowe Price, Artisan, Vanguard, DFA, Dodge & Cox and The Dreyfus Corporation.

Age-based option

Your savings are placed in a portfolio matched to your beneficiary’s age and your choice of blended or index investment strategy (see below). The Plan will automatically move your investment to another age-based portfolio when your beneficiary moves into the next age group.

When your beneficiary is younger, the portfolio will be weighted more heavily in equity investments. As your beneficiary approaches college age, the portfolio will be weighted more heavily in fixed income and money market investments.

Before investing in the Plan’s age-based portfolios, you should review the table on page 6 and consider additional factors, including your risk tolerance, personal circumstances and complete financial situation.

Static option

If you choose a static portfolio your investment does not change with the age of the beneficiary. Your investment will remain in that portfolio until you instruct the Plan to move to another portfolio.

Investment strategies

**Blended Strategy** The blended strategy offers a combination of index and actively managed investments in one portfolio. Actively managed investments attempt to beat a major market index over the long term and are managed by dedicated portfolio managers.

**Index Strategy** Generally, this strategy is designed to generate returns that attempt to track the performance of a major market index over the long term. Transaction costs and other expenses are lower because the investments are based on the composition of the index.

1. If the contributor dies before the end of the five-year period, a prorated portion of the contribution allocable to the remaining years in the five-year period, beginning with the year after the contributor’s death, will be included within his or her gross estate for federal estate tax purposes.

2. Please see the Plan Description for details. Consult your tax advisor to determine whether such a change creates a taxable gift.

A Word from NorthStar Financial Services Group, LLC.

NorthStar Financial Services Group, LLC, was founded to empower the investment community with a suite of services designed to help the individual investor. With a client-centric culture, we proudly assist investors to meet their investment goals.
**Investment Options**

**Age-based Option**
Your account is placed in one of the following six portfolios.

**Portfolio Objective**
Seeks long-term growth by investing primarily in equity investments. A percentage of assets are invested in fixed income investments to provide some protection from equity volatility.

**Blended Static**
Seeks long-term growth by investing all of its assets in equity investments.

**Static Option**
You may choose to invest in one, or any combination of the portfolios below.

Each underlying investment has its own risks. There is always the potential for losing money when you invest in securities. For example, the prices of small-cap stocks are generally more volatile than large-company stocks. There are special risks inherent to international investing, including currency, political, social and economic risks. Investments in growth stocks may be more volatile than other securities. With value investing, if the marketplace does not recognize that a security is undervalued, the expected price increase may not occur. Fixed-income investing entails credit and interest rate risks. When interest rates rise, bond prices generally fall, and the fund or account value may fall as well. Diversification does not guarantee a profit or protect against loss. Derivative instruments, investments whose values depend on the performance of an underlying security, asset, interest rate, index or currency, entail potentially higher volatility and risk of loss compared to traditional stock or bond investments.

3. You could lose money by investing in this investment option. Although the money market fund in which your investment option invests (the “underlying fund”) seeks to preserve its value at $1.00 per share, the underlying fund cannot guarantee it will do so. An investment in this investment option is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The underlying fund’s sponsor has no legal obligation to provide financial support to the underlying fund, and you should not expect that the sponsor will provide financial support to the underlying fund at any time.
**Compare Your Savings Options**

The Texas College Savings Plan offers many potential benefits not found in other education savings options, such as a Coverdell Education Savings Account and a Uniform Gift to Minors Act (UGMA) or Uniform Transfer to Minors Act (UTMA) account.

<table>
<thead>
<tr>
<th>Features</th>
<th>The Texas College Savings Plan</th>
<th>Coverdell Education Savings Account</th>
<th>UGMA/UTMA Account</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Beneficiary Age Limit</strong></td>
<td>None</td>
<td>Can contribute until child reaches 18. Must spend assets by child's 30th birthday</td>
<td>18 or 21, depending on state law</td>
</tr>
<tr>
<td><strong>Account Owner Income Limit</strong></td>
<td>None</td>
<td>Phases out for incomes between $95,000 and $110,000 if single, $190,000 and $220,000 if married</td>
<td>None</td>
</tr>
<tr>
<td><strong>Federal Tax Exemption</strong></td>
<td>For qualified withdrawals</td>
<td>For qualified withdrawals</td>
<td>None</td>
</tr>
<tr>
<td><strong>Contribution Limit</strong></td>
<td>$370,000 per child&lt;sup&gt;4&lt;/sup&gt;</td>
<td>$2,000 per year</td>
<td>None</td>
</tr>
<tr>
<td><strong>Account Control</strong></td>
<td>Parent/account owner</td>
<td>Parent/account owner</td>
<td>Child assumes control at legal age of majority</td>
</tr>
<tr>
<td><strong>Beneficiary Flexibility</strong></td>
<td>Flexible beneficiary designation&lt;sup&gt;5&lt;/sup&gt;</td>
<td>Flexible beneficiary designation&lt;sup&gt;5&lt;/sup&gt;</td>
<td>May not be transferred</td>
</tr>
<tr>
<td><strong>Financial Aid Impact</strong></td>
<td>Considered account owner's assets</td>
<td>Considered account owner's assets</td>
<td>Considered student's assets</td>
</tr>
<tr>
<td><strong>Asset Use</strong></td>
<td>Can be used for a broad range of higher education expenses</td>
<td>Can be applied to elementary, secondary and higher education expenses</td>
<td>Unrestricted, provided it is for the benefit of the minor</td>
</tr>
<tr>
<td><strong>Gift Tax Treatment</strong></td>
<td>Qualifies for $15,000 exclusion from gift tax ($30,000 for married couples filing jointly)</td>
<td>Amount contributed qualifies for gift tax exclusion</td>
<td>Qualifies for $15,000 exclusion from gift tax ($30,000 for married couples filing jointly)</td>
</tr>
<tr>
<td><strong>Estate Tax Treatment</strong></td>
<td>Considered removed from donor's estate (partial inclusion if donor dies during the five-year election period)</td>
<td>Considered removed from donor's estate</td>
<td>Considered removed from donor's estate</td>
</tr>
<tr>
<td><strong>Investment Flexibility</strong></td>
<td>Yes&lt;sup&gt;6&lt;/sup&gt;</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

**Invest 100% in the appropriate age-based portfolio**

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**Your Questions Answered**

**Q:** What is a 529 Plan?

**A:** Named after Section 529 of the IRS code, state-sponsored 529 plans are investment plans that receive special federal tax benefits to encourage families to save for college. Also referred to as qualified tuition programs, they are specifically designed to help families—regardless of income level—save for college expenses by offering the potential for tax-deferred growth and tax-free withdrawals for qualified educational expenses.

**Q:** What defines a “U.S. resident” for the purposes of the Texas College Savings Plan?

**A:** All U.S. citizens and permanent resident aliens are considered U.S. residents for the purposes of the Texas College Savings Plan.

**Q:** What are qualified educational expenses?

**A:** Qualified educational expenses include tuition, fees, certain room and board expenses, textbooks, supplies and equipment required for a student to attend classes at an eligible educational institution, and expenses for special needs services in the case of a special needs beneficiary who incurs such expenses in connection with attendance at an eligible educational institution.

**Q:** Can I open an account for myself?

**A:** Absolutely. The Texas College Savings Plan can help anyone save for future educational expenses.

**Q:** How do I select the right investment option for my account?

**A:** The Age-based Option is a simple way to save for higher education costs. Contributions are placed in one of six portfolios depending on the beneficiary’s age and your choice of a blended strategy or an index strategy. The Plan will automatically move your investment to another age-based portfolio when the beneficiary moves into the next age group.

The Static Option offers more control. Based on your situation and risk tolerance, you can choose to invest in one, or any combination of the static portfolios.

When deciding how to invest, keep in mind that the Texas College Savings Plan does not require you to choose between the two options. You may choose to:

- Invest 100% in the appropriate age-based portfolio

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4. All assets, including earnings, under all 529 accounts within all plans maintained by the state of Texas, including the Texas Guaranteed Tuition Plan, the Texas College Savings Plan, the LoneStar 529 Plan® and the Texas Tuition Promise Fund®, established for the benefit of a particular beneficiary, must be aggregated when applying this limit. New contributions will not be allowed while a beneficiary’s accounts exceed this limit. Earnings, however, can continue to accrue.

5. Changes in beneficiary are limited to qualified family members of the current beneficiary to avoid federal tax consequences.

6. Account owner may only change how previous contributions and any earnings thereon are invested twice per calendar year or upon a change in beneficiary.
Q: What if my beneficiary receives a scholarship?
A: If that occurs, congratulate your beneficiary, and rest assured that you may still use your savings to pay for expenses not covered by the scholarship, such as room and board, books and other required supplies. You can also withdraw an amount equal to the value of the scholarship from your account. Earnings on this amount will be taxed at your tax rate, but will not be subject to the additional 10% federal tax penalty. Other options include leaving the money in the account or changing your beneficiary.

Q: What if my beneficiary doesn’t go to college?
A: As the account owner, you always control the account. If your beneficiary chooses a path that does not include higher education, you can:

- Keep the funds in the account: Your account will remain available should your beneficiary change his or her mind.
- Change the beneficiary: You can change your beneficiary at any time, as long as the new beneficiary is a qualified family member. Please see the Plan Description for details. Consult your tax advisor to determine whether such a change creates a taxable gift.
- Take a nonqualified withdrawal: While this is always an option, keep in mind your account’s earnings will be subject to federal income taxes and an additional 10% federal tax penalty, and any state and local income tax, if applicable.

Q: Can I roll over assets from another 529 plan?
A: Yes. Rollovers, or transfers from another 529 plan without incurring tax penalties are permitted for the benefit of the beneficiary or a qualified family member of the current beneficiary once every 12 months. However, you must send the money to the Texas College Savings Plan within 60 days of the withdrawal or direct us to transfer the money from your existing account. Some qualified savings plans impose a penalty for this type of transfer and some states recapture tax benefits. Please review the terms of your existing account.

Q: Can I transfer assets of a UGMA/UTMA account?
A: Yes. If you are the custodian for the beneficiary, you may elect to place part or all of the UGMA/UTMA assets into a Texas College Savings Plan account in your custodial capacity. However, there are certain considerations when doing so:

- Non-cash assets held in an UGMA/UTMA must first be liquidated, as only cash contributions are permitted into a college savings account. You should discuss the tax consequences with your tax advisor before executing this transaction.
- The account beneficiary may not be changed from the original beneficiary of the UGMA/UTMA account, and all withdrawals must be made for the benefit of the beneficiary, as outlined in the terms governing UGMAs/UTMAs.
- The custodian must notify the Plan when the custodianship terminates and the beneficiary is legally entitled to take control of the account.

Q: How does the Texas College Savings Plan differ from a Coverdell Education Savings Account?
A: While a Coverdell Education Savings Account (ESA) offers similar tax advantages, annual contributions are limited and may not be sufficient to adequately fund a college education. ESAs also impose restrictions on who may contribute, based on income levels.

Q: Will having a 529 Plan savings account hurt a beneficiary’s chances for federal financial aid?
A: College savings normally reduce the amount of federal financial aid your beneficiary is eligible to receive; however, savings increase the total amount of money available to actually pay college expenses. Generally, the current federal financial aid formula includes up to 5.64% of parental assets and up to 20% of the student’s own assets in determining the Expected Family Contribution (EFC). If the beneficiary is your dependent, your 529 account will be included as one of your assets, rather than your child’s asset. If the account owner is neither the parent nor the beneficiary, the 529 account might not be an asset included in the calculation.

While earnings from a taxable savings or mutual fund account are generally included as income in the EFC formula, 529 plan accounts are treated differently. If certain criteria are met, tax-free distributions to the student from your 529 account might be excluded from the parent and student income portions of the EFC formula.

See the latest Department of Education’s Federal Student Aid Handbook for more details and any changes.

Please note that school-based financial aid does not have to follow the federal formula. Texas law provides that assets in a Texas College Savings Plan account may not be considered in determining eligibility for Texas state-funded student financial aid.

Increased Earnings Opportunities

- The $99,716 median family income for families headed by a four-year college graduate was more than twice the median income for families headed by a high school graduate.

Easy Online Enrollment

There’s no reason to delay one more day. Take a giant next step and open a 529 account with the Texas College Savings Plan today.

Here’s how

2. Click “Enroll Online.”
3. Follow the simple instructions.

If you prefer, you may complete and return the Account Application, along with a check for a deposit of $25 or more, made payable to the Texas College Savings Plan. No matter how you open your account, be sure to read the Plan Description carefully. It outlines the risks, fees and other expenses associated with investing in the Plan. If you have questions, call 1.800.445.GRAD (4723), option #3, between the hours of 8am and 6pm Central Time.

Additional Resources

The following websites can help you understand 529 plans, and other savings options, as you work toward affording higher education for a child in your life.

Every Chance Every Texan, www.everychanceeverytexan.org
Provides details on the jobs of tomorrow and strategies for obtaining the necessary education.

Saving for College, www.savingforcollege.com
Includes information about 529 plans and other ways to save and pay for college.

College Board, www.collegeboard.org
Provides a broad range of information on saving and paying for college, including college cost calculators, financial aid, grants and loans.

College Savings Plan Network, www.collegesavings.org
An affiliate to the National Association of State Treasurers, the College Savings Plan Network’s website provides detailed information about 529 college savings plans and allows you to compare plans from around the country.

Texas Higher Education Coordinating Board, www.thecb.state.tx.us
Provides information on planning and applying for college, as well as higher education funding options.

Texas Education Agency, www.tea.state.tx.us
Provides leadership, guidance and resources to help schools meet the educational needs of all students and prepare them for postsecondary success in the global economy.

Includes planning resources for students, parents and educators, including information on the various kinds of federal financial aid available, how to apply, common myths and more. Also offers assistance filling out and tracking the Free Application for Federal Student Aid form, or FAFSA.
An education savings plan is important. Choosing the right one is essential.

The Texas College Savings Plan offers

- Professionally managed investments
- Federal tax advantages for growth potential
- Minimal maintenance and competitive portfolio management fees
- The ability for both family and friends to easily contribute

FOR MORE INFORMATION AND PLAN DETAILS
Go to www.texascollegesavings.com

This material is provided for general and educational purposes only, and is not intended to provide legal, tax nor investment advice, or for use to avoid penalties that may be imposed under U.S. federal tax laws. Contact your attorney or other advisor regarding your specific legal, investment or tax situation.

The Texas College Savings Plan® is established and maintained by the Texas Prepaid Higher Education Tuition Board. NorthStar Financial Services Group, LLC (“NorthStar”) is the plan manager and the Plan is distributed by NorthStar affiliate Northern Lights Distributors, LLC and administered by NorthStar affiliate Gemini Fund Services, LLC. Non-residents of Texas should consider whether their home state, or the beneficiary’s home state, offers its residents any state tax or other state benefits, such as financial aid, scholarship funds, and protection from creditors that are only available for participants in that state’s 529 plan. Interests in the Plan are not deposits or other obligations of any depository institution.

No part of an account, the principal invested, nor any investment return is insured or guaranteed by the FDIC, the state of Texas, the Texas Prepaid Higher Education Tuition Board, any other state or federal governmental agency or NorthStar or its subsidiaries or affiliates. An account might not make money and could lose money (including the principal invested) if money is invested in the Plan. Interests in the Plan have not been registered with the U.S. Securities and Exchange Commission or with any state.

Before investing in the Plan, investors should carefully consider the investment objectives, risks, administrative fees, service and other charges and expenses associated with municipal fund securities. The Plan Description and Savings Trust Agreement contain this and other information about the Plan, and may be obtained by visiting www.texascollegesavings.com or calling 1.800.445.GRAD (4723), option #3. Investors should read these documents carefully before investing.

"You could lose money by investing in this investment option. Although the money market fund in which your investment option invests (the "underlying fund") seeks to preserve its value at $1.00 per share, the underlying fund cannot guarantee it will do so. An investment in this investment option is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency. The underlying fund’s sponsor has no legal obligation to provide financial support to the underlying fund, and you should not expect that the sponsor will provide financial support to the underlying fund at any time."

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TX0001.001.1211 May 31, 2016
5982-NLD12/27/2017 TCSP-010

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