

2011 Kansas Investments Developing Scholars (K.I.D.S.) Matching Grant Program Description



Background

The K.I.D.S. matching grant program was created by K.S.A. 75-650 as a part of the Learning Quest 529 Education Savings Program administered by the State Treasurer for Kansas residents with incomes below 200% of the federal poverty level. The regulations for the program can be found at K.A.R. 3-4-1 through 3-4-7. When you (the Learning Quest Account Owner) enroll your beneficiary (the student who is the participant) in the K.I.D.S. program, the state will match the first \$600 that you contribute to your Learning Quest account during 2011. You must contribute at least \$100 this year to be eligible. The matching grant funds must be used to fund your beneficiary's qualified higher education expenses. The program is limited to 1,200 participants with 300 from each of Kansas' four Congressional Districts.

Handbook Variations

This *Program Description* contains variations to your *Learning Quest Handbook* that address how your account will be registered and how withdrawals will be handled. All the other terms in your *Learning Quest Handbook* that are not addressed in this *Program Description* will apply to your K.I.D.S. program contribution 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 K.I.D.S. program account owner can have an ownership interest in the account.

Reminder of 2010 Changes

As a reminder, beginning in 2010, one matching grant of up to \$600 is available for each beneficiary regardless of who is the account owner. Because each matching grant is awarded to each beneficiary, if you change the beneficiary for your Learning Quest account, the entire match account will be forfeited. When a beneficiary is enrolled as a participant in 2010 or thereafter, this rule will be applied to all K.I.D.S. accounts with the same unique account owner/beneficiary combination.

Also beginning in 2010, any withdrawal from a K.I.D.S. account will make the beneficiary ineligible to receive a matching grant for contributions in the same calendar year.

Lastly, you do not need to provide a copy of your income tax return with your application. We will confirm your Federal Adjusted Gross income reported on your application with the Kansas Department of Revenue to determine your eligibility in the program. Once completed, you will receive a written confirmation in the mail.

Eligibility

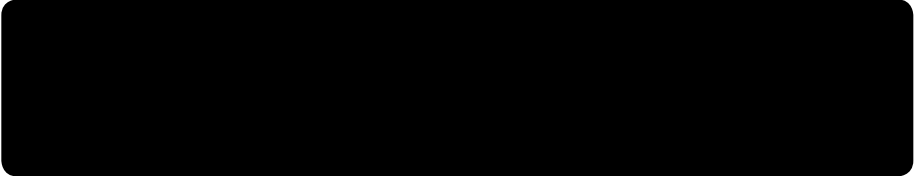

An eligible account owner must be a resident of the state of Kansas and live in a household with a total 2010 Federal Adjusted Gross Income for all members of the household that is less than the amount listed below:

Persons in Family or Household	1	2	3	4	5	6	7	8	For each additional person, add
Income Below	\$21,780	\$29,420	\$37,060	\$44,700	\$52,340	\$59,980	\$67,620	\$75,260	\$7,640

This number will be adjusted each year to equal 200% of the federal poverty guidelines. Your household is defined by K.A.R. 3-4-1 as all persons related by birth, marriage or adoption who share your residence.

Each Learning Quest Account Owner must apply each year for the matching grant using the total household income from the previous tax year regardless if you have been approved in the past. Applications are processed on a first come first served basis. Applicants are encouraged to apply after February 15, 2011, and as soon as they have completed their income tax return.

Continued on Page 2



Each participant (the designated beneficiary for your Learning Quest account) may receive only one matching grant per year, but there is no limit to the number of participants from the same household that can be eligible participants. The Learning Quest Account Owner cannot be claimed as the dependent on someone else's federal income tax return.

Account Setup

To open a Learning Quest account you will have to make a one-time contribution of \$100 or set up an automatic monthly investment of at least \$25 from your bank account or paycheck. (See the *Learning Quest Application* for instructions for establishing an automatic investment.) Once your automatic contributions reach \$100, you'll be entitled to the matching grant.

Once you are approved to participate in the K.I.D.S. program for the current year, we will open two Learning Quest accounts based on the *Learning Quest Application* you submit along with the *K.I.D.S. Program Application*. The first Learning Quest account will be registered as your "Contribution Account," and it will hold your grant-eligible contributions. The second account will be registered as your "Match Account," and it will hold the matching grant funds that you will receive each January from the state of Kansas. The beneficiary that you designate and the investment portfolio that you select on the *Learning Quest Application* will be used for both of these accounts. You may change the investment option, but the changes will be applied to both accounts. The account owner for either account cannot be changed without the approval of the State Treasurer. The Treasurer may approve a change to another eligible account owner at any time. In the case of your divorce, death or if you become incapacitated, the Treasurer may approve a change to any individual.

Once you have contributed the maximum grant eligible amount of \$600 in a calendar year, any additional contributions will be invested in a separate unrestricted account in your name.

Joint Account Owners

If your Learning Quest account has joint account owners, each individual must be eligible to receive the matching grant. Joint owners who live in separate households will each need to submit their respective household income information to determine eligibility. Individuals who file a joint income tax return are not required to apply as joint account owners.

Eligible Contributions

Contributions must be from the income eligible account owner. Contributions from third parties, earnings from rewards programs and rollovers from 529 plans sponsored by other states are not match-eligible. These contributions will be placed in a separate unrestricted account in your name for the beneficiary.

How the Match Occurs

In January, the Treasurer's Office will review your contributions to your Contribution Account for the prior year through December 31, determine the amount of matching grant funds that you are eligible to receive, and make a deposit into your Match Account. To receive the matching grant funds, you must contribute a minimum of \$100 per year. Match contributions will be made equal to your contributions up to \$600 per year. **If you take a withdrawal from your contribution account, you will not receive a matching grant for contributions to any account for the same designated beneficiary during the same year.**

Continued on Page 3



Qualified Withdrawals of the Matching Grant Funds

To make a withdrawal from your Match Account, you will have to prove to the Treasurer's Office that the beneficiary has incurred qualified higher education expenses at any college, university, community college or technical school that is accredited to receive federal financial aid. See the Learning Quest Handbook for more information on "Qualified Higher Education Expenses" and "Eligible Educational Institutions". You can either submit receipts for expenses that you have paid or submit a bill from the eligible institution if you are requesting us to issue a check payable to the institution. Qualified withdrawals will be processed by withdrawing 50% of the requested amount from your Contribution Account and 50% from your Match Account. This will ensure that your money and the state's money are spent equally to pay for the beneficiary's qualified expenses. **If you take a withdrawal from your contribution account, you will not receive a matching grant for contributions to any account for the same designated beneficiary during the same year.** Requests for withdrawals must be submitted in writing on the *KIDS Withdrawal Form* that can be obtained from the Treasurer's Office, American Century Investments or at learningquest.com.

Nonqualified Withdrawals from the Contribution Account

You will not be allowed to make a non-qualified withdrawal from your Match Account. At any time, you can request a nonqualified withdrawal from your Contribution Account, but you will forfeit an equal amount from your Match Account. The balance in your Match Account will be treated as earnings for the purpose of calculating the earnings portion of any non-qualified withdrawal from any account for the same beneficiary. The earnings portion of a non-qualified withdrawal is subject to federal and state taxation and a 10% federal penalty tax. Requests for withdrawals must be submitted in writing on the *KIDS Withdrawal Form* that can be obtained from the Treasurer's Office. **If you take a withdrawal from your contribution account, you will not receive a matching grant for contributions to any account for the same designated beneficiary during the same year.**

Tax Issues

It is our belief that the state's contribution to your Match Account will not be treated as income to you when it is added to your Match Account due to the restrictions we have placed on Match Account. We will treat the balance in your Match Account as earnings when reporting your contributions and earnings on *IRS Form 1099Q* when a withdrawal is made from any account for the same designated beneficiary. This means that if you make a nonqualified withdrawal from any account for the same designated beneficiary, the amount of the matching grant and any earnings in the Match Account will be used to determine the earnings portion of the withdrawal that is subject to state and federal taxation and the federal 10% penalty tax. We have not received a confirmation of this understanding from the Internal Revenue Service, and we encourage you to consult a tax advisor about the taxability of the matching grant.

Contact Information

If you have questions about the K.I.D.S. program, you can contact the Treasurer's Office at 1-866-504-5898 or by email at LQ@treasurer.state.ks.us or contact American Century Investments at 1-800-579-2203.