



**SATURNA CAPITAL**

**ESA**

**Saturna Capital Coverdell Education Savings Accounts**

A woman wearing a white jacket and a white hat is seen from behind, pointing her right hand towards a bright sun in a hazy, outdoor setting. The background is a soft-focus landscape with a horizon line.

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*Our clients' interests  
always come first.*

# W elcome to Saturna Capital's ESA Plan

## **The Saturna Advantage**

Open your Coverdell Education Savings Account with Saturna and take advantage of:

### **A 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. Additionally, in a self-directed Brokerage ESA, you can purchase stocks, bonds, fixed-income securities including CDs and US Treasuries, and a wide range of unaffiliated mutual funds.

### **Knowledgeable, personalized service**

At Saturna Capital, we make investing for education easy. Our staff is dedicated to helping you with your retirement questions. Your account representative can help you customize your educational savings account strategy. You can even invest automatically from your bank account to your Saturna mutual fund ESA. Saturna has been providing investment ESAs since 2001.

### **An ESA with Saturna's No-Load Mutual Funds**

If you invest in any of Saturna's affiliated no-load mutual funds, we will not charge you any account opening, maintenance, or custodial fees on your ESA (mutual fund expenses do apply).

*Investments in mutual funds are subject to ongoing expenses that shareowners pay indirectly. Please consult a fund's prospectus or summary prospectus for more details.*

### **A Self-Directed Brokerage ESA**

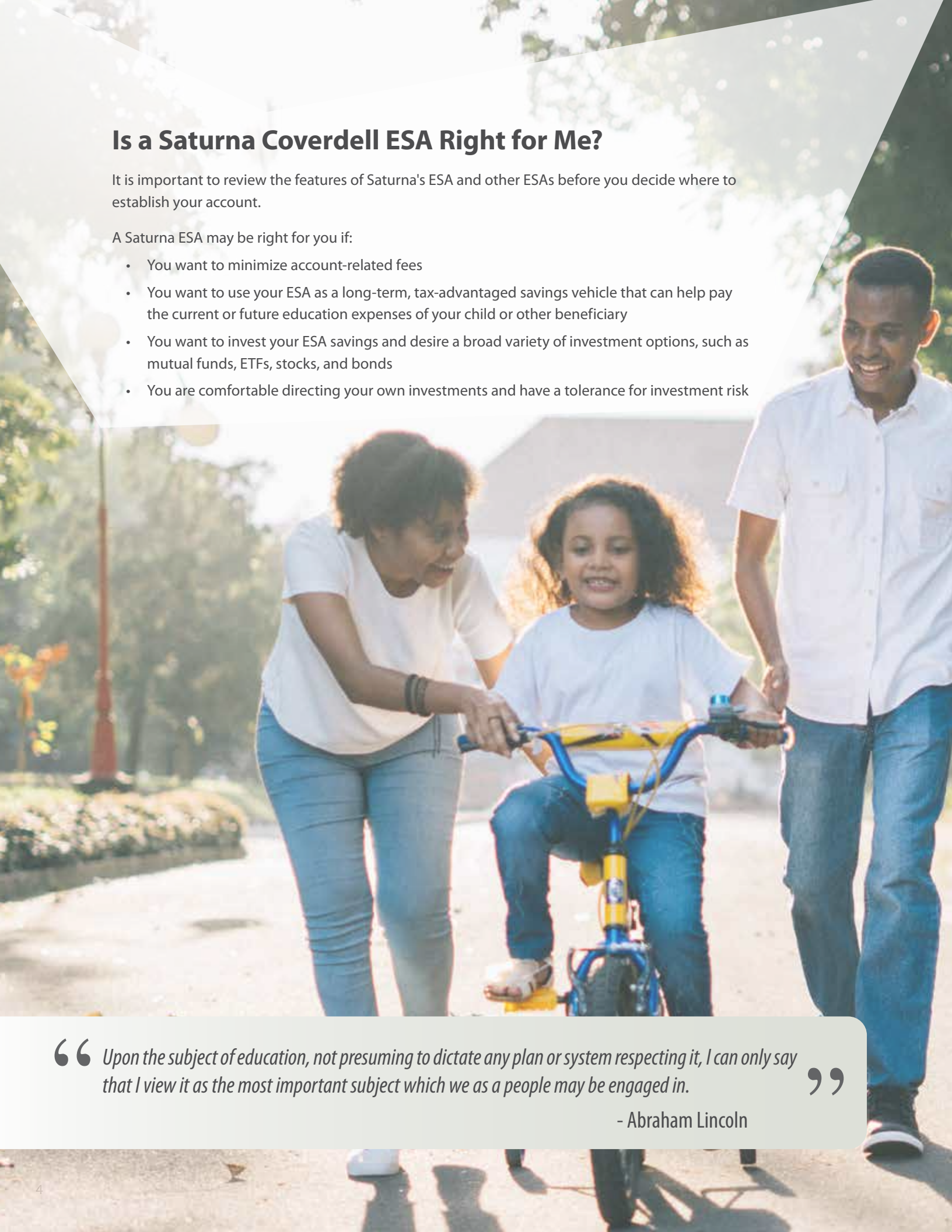
If you wish to purchase unaffiliated mutual funds, stocks, bonds, limited partnerships, or write covered call options on stocks you own as part of your ESA investments, a Self-Directed Brokerage ESA is also available. A Self-Directed Brokerage ESA is a special Saturna Brokerage Services account enabling you to purchase and sell a variety of securities for your ESA. A regular brokerage statement is provided, showing each security in your ESA and its current value. The account is subject to normal brokerage commissions and other possible charges. See the commission schedule at [www.saturna.com/sbs](http://www.saturna.com/sbs) and in the Saturna Brokerage Services brochure.

## Is a Saturna Coverdell ESA Right for Me?

It is important to review the features of Saturna's ESA and other ESAs before you decide where to establish your account.

A Saturna ESA may be right for you if:

- You want to minimize account-related fees
- You want to use your ESA as a long-term, tax-advantaged savings vehicle that can help pay the current or future education expenses of your child or other beneficiary
- You want to invest your ESA savings and desire a broad variety of investment options, such as mutual funds, ETFs, stocks, and bonds
- You are comfortable directing your own investments and have a tolerance for investment risk



“ 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

## What is a Coverdell Education Savings Account (ESA)?

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-advantaged status if it is used in a prohibited transaction.

### Coverdell ESA Eligibility

Any parent or guardian can open a Coverdell ESA for any child under the age of 18. Any eligible adult can contribute to an ESA if the beneficiary is under 18. The person who controls the ESA is the custodian (sometimes referred to as the "responsible party") as named in the account agreement. The child, known as the designated beneficiary, does not have to be related to the person establishing the account.

### Coverdell ESA Income and Contribution Limits 2024 and 2025

Aggregate contributions that may be made by all contributors to one or more ESAs 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.

Maximum income limits (AGI) for contributions to an ESA		
	Full contribution up to:	Contribution phased out up to:
<b>Single Filers</b>		
<b>2024</b>	\$95,000	\$110,000
<b>2025</b>	\$95,000	\$110,000
<b>Joint Filers</b>		
<b>2024</b>	\$190,000	\$220,000
<b>2025</b>	\$190,000	\$220,000

Contributions to an ESA may be made up until April 15 (the tax return due date, not including extensions) to be applied 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.

Excise taxes and/or penalties may apply to excess contributions made to ESAs. 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 exceeds the limit 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 prior to the tax filing deadline for the year in which the contributions are applied, will avoid related excise taxes and/or penalties.

# Getting Started

## Coverdell ESA Eligible Expenses

Distributions from your Coverdell Education Savings Account are tax-free, provided that they are used to pay the beneficiary's **qualified education expenses**.

You may use your Coverdell Education Savings Account to pay for the beneficiary's elementary, secondary, and postsecondary expenses at virtually any accredited public, private, or religious school. Qualified education expenses include tuition, fees, books, supplies, and equipment required for attendance at the designated educational institution. Other expenses such as room and board, uniforms, transportation, computer-related expenses, and supplementary items (e.g., extended day programs) may also qualify. Additional exceptions are available to special needs beneficiaries. Qualified education expenses are reduced by the amount of any scholarships or financial aid received.

*Please see IRS Publication 970, Tax Benefits for Education, for more information about qualified education expenses.*

## Coverdell ESA Distribution Rules

The account custodian may request a distribution at any time. Distributions, including earnings, are tax-free as long as they do not exceed the beneficiary's adjusted qualified education expenses. Some tax-free scholarships, fellowships, and grants may reduce the allowable amount of tax-free ESA distributions in a given tax year. Distributions in excess of the beneficiary's

adjusted qualified education expenses are generally includable in the beneficiary's taxable income for the year, and may be subject to a 10% IRS tax penalty.

Once the designated beneficiary reaches age 30 (or upon the beneficiary's death), any remaining ESA balance must be distributed within 30 days. Alternatively, amounts remaining in an ESA may be rolled over into another ESA for a different beneficiary in the same family. A change in beneficiary does not constitute a distribution if the new beneficiary is a member of the family of the original beneficiary.

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.

*For more information about ESA distributions, including calculating adjusted qualified education expenses, please refer to IRS Publication 970, Tax Benefits for Education.*

## Coverdell ESA Age Limit

The balance remaining in an ESA must be distributed within 30 days after the beneficiary's 30th birthday. Distribution of the account balance of a deceased beneficiary must be made within 30 days after the beneficiary's death.



## Lifetime Learning Credit

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 four years of postsecondary 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 \$80,000 (\$160,000 for joint filers), and phased out at \$90,000 (\$180,000 for joint filers).

# Investment Options

## Your Saturna ESA is designed with investing in mind.

Your Saturna Coverdell ESA is designed with investing in mind. You can begin investing in your Saturna ESA by choosing a Saturna-affiliated no-load fund. To make investing even easier, set up an automatic investing plan in increments as low as \$25.

### Saturna No-Load Mutual Funds

When you invest in any of Saturna Capital's affiliated no-load mutual funds, you never pay any account opening, closing, maintenance, or custodial fees on your ESA account. Investments in mutual funds are subject to ongoing expenses that shareowners pay indirectly. Please consult a fund's prospectus or summary prospectus for more details.

Saturna offers a variety of mutual funds to help you customize your ESA investment plan. Fund prices and performance information are available upon request or at [www.saturna.com](http://www.saturna.com).

### Saturna Self-Directed Brokerage ESA

Saturna Brokerage Services offers the Dreyfus Insured Deposit Program as an option for your uninvested cash. This program provides Federal Deposit Insurance Corporation (FDIC) coverage for amounts held in your Saturna Brokerage ESA. You may also elect to hold cash.

- Non-Saturna mutual funds
- Money market funds
- Stocks
- Bonds
- ETFs
- Covered call options
- US Treasuries

Please note that self-directed brokerage ESAs require an additional application, and trades are subject to the Saturna Brokerage Services commission schedule. For more information, please see the Saturna Brokerage Services brochure and account application, which are available upon request or at [www.saturna.com/sbs](http://www.saturna.com/sbs).

### Saturna Coverdell ESA Automatic Investment Plan

Once your account is established, you can use Electronic Funds Transfer (EFT) to automatically transfer money from your bank account to your Saturna ESA. Automatic investing is a complimentary service with your Saturna ESA when you invest in any of Saturna's affiliated mutual funds, and with your Saturna Brokerage ESA when you invest in any of the funds included on the SBS No Transaction Fee Mutual Fund Platform (minimum investments may apply).

Automatic transactions can be scheduled on any business day, employing a monthly, quarterly, or annual schedule. You can also make automatic withdrawals from your ESA to be deposited in your bank account. Whichever automatic plan you choose, there is never an additional fee.

# Further Information About ESAs

## Who can contribute to a Coverdell Education Savings Account?

Contributions can be made by parents, grandparents, other relatives, friends, and the child for whom the account is established. Organizations, such as corporations, are also permitted to contribute to an ESA. Individuals making contributions to an ESA must have a modified adjusted gross income of less than \$110,000 (\$220,000 for joint filers).

## Are Coverdell ESA contributions tax deductible?

All contributions are made with after-tax dollars and are not tax deductible. However, ESA distributions, including earnings, are tax-free if they are not more than the beneficiary's adjusted qualified education expenses for the year.

## What are the Coverdell ESA contribution limits for 2024 and 2025?

Please see page 6 of this brochure for current contribution limits.

## What is the deadline for making contributions to my Coverdell ESA?

For a given tax year, contributions must be made on or before the federal tax filing due date (excluding extensions), which is usually April 15 of the following year. If you are making a contribution between January 1 and April 15, please be sure to specify the tax year to which it should be applied.

## Is there an age limit for Coverdell ESA contributions?

Yes. Contributions must cease at age 18 unless the beneficiary is a special needs beneficiary.

## Are businesses allowed to make contributions to an ESA?

Yes. Organizations such as corporations, non-profits, and trusts can make contributions to an ESA.

## Can a child have more than one Coverdell ESA account?

Yes. The total annual contributions to all accounts must not exceed \$2,000.

## What counts as qualified education expenses?

ESA account withdrawals can be used to pay for qualified education expenses. These include expenses such as tuition, fees, supplies and equipment, room and board, and books. Qualified elementary and secondary school expenses include tuition, fees, academic tutoring, books, uniforms, room and board, computer technology, equipment, and internet access.

## What is considered an eligible education institution?

Eligible education institutions include kindergarten, elementary, secondary, and postsecondary schools. Eligible postsecondary schools include virtually all accredited colleges, universities, and vocational schools, whether public, nonprofit, private, or for-profit. Eligible elementary and secondary schools range from kindergarten through grade 12 and include public, private, and religious schools.

## When can the funds in my Coverdell ESA be withdrawn?

Distributions from your ESA may be made at any time. Distributions used for payment of the beneficiary's qualified education expenses are generally tax-free as long as they do not exceed the beneficiary's adjusted qualified education expenses for the year.

## What happens if my ESA distribution is not used for a qualified education expense?

The earnings portion of an ESA distribution that is not considered to be for a qualified education expense will be included in the gross income of the beneficiary and may incur an additional 10% IRS tax penalty.



### **What happens to the remaining funds in an ESA when the beneficiary has completed his/her education?**

Any funds remaining in the account may be withdrawn or rolled into another ESA. Earnings on an unqualified withdrawal would be subject to income tax and an additional 10% penalty. If the funds are rolled into a new ESA for the benefit of another family member, then the funds are not taxed. You may also change the designated beneficiary on the ESA to a member of the same family. In all cases the beneficiary must be under age 30.

### **Is there a certain age when the funds in an ESA must be distributed or transferred?**

Generally the funds must be withdrawn or transferred by the age of 30 or the designated beneficiary's date of death. Special needs beneficiaries are not subject to the age restriction.

### **Will an ESA have an effect on my child's eligibility for financial aid in college?**

Lower and middle-income parents who expect to have their child apply for financial aid in college should think twice about Education Savings Accounts, despite their tax advantages. This is because an ESA must be set up in the child's name. Financial aid formulas count assets held in the child's name much more heavily than assets in the parent's name when determining how much a family can afford to contribute to the cost of college.

### **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 four years of postsecondary 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.



## Online Account Opening

Open an account online, or complete and sign the Educational Savings Account (ESA) Application, which is available on the Documents and Forms page at [www.saturna.com](http://www.saturna.com).

If you have an existing ESA through another financial institution, you can transfer it to Saturna by completing an ESA Cash Transfers Form, which you will also find on the Documents and Forms page of our website.

Open an account online at: [saturna.com/online-account-opening/esa](http://saturna.com/online-account-opening/esa)

## Coverdell ESA Application Checklist

Complete and sign the Saturna Education Savings Account (ESA) New Account Agreement Form, which is available on the Documents and Forms page at [www.saturna.com](http://www.saturna.com).

If you have an existing ESA through another financial institution, you can transfer it to Saturna by completing an ESA Transfer Form, which you will also find on the Documents and Forms page of our website.

- ESA Application Form (and ESA Transfer Form, if transferring an existing ESA), completed and signed
- Form 5305-E, completed and signed
- A copy of your government-issued photo ID
- A check for your initial investment payable to the fund(s) of your choice
  - If you wish to purchase non-Saturna affiliated mutual funds, stocks, or bonds, a separate check should be made payable to Pershing LLC for those purchases
  - Be sure to indicate the tax year for which you are making the contribution

### Check(s) should be made payable to the Fund(s) of your choice

Please mail your application and IRS Form 5305-E with your check(s) and a copy of your government-issued photo ID to:

**Saturna Capital**  
**Attn: ESA Department**  
**P.O. Box N**  
**Bellingham, WA 98227**

For brokerage ESAs, please see the Saturna Brokerage Services brochure and application for more information.

# ESA Fees

	Invested in Saturna's affiliated mutual funds only	Self-Directed Saturna Brokerage ESA <sup>1</sup>
<b>Account Fees</b>	<i>Investments in mutual funds are subject to ongoing expenses that shareowners pay indirectly. Please consult a fund's prospectus or summary prospectus.</i>	
Account Opening	None	None
Account Maintenance	None	Potential inactive account fee <sup>2</sup>
Statement Fee	None	None
Low Balance Fee	None	None
Account Closing	None	None
<b>Transaction Fees</b>		
Contributions	None	Subject to Commission Schedule
Distributions/Withdrawals <sup>3</sup>	None	Subject to Commission Schedule
	Outgoing wire transfers and overnight delivery of proceeds from sales are subject to prevailing rates.	
Trades / Exchanges	None	Subject to Commission Schedule
Account Transfers	None	In: None <sup>4</sup> Out: \$75

<sup>1</sup> Self-Directed Brokerage ESAs may be subject to fees for services not listed in this chart. Please refer to the Saturna Brokerage Services Commission Schedule (available in the Saturna Brokerage Services Brochure and online at [www.saturna.com/sbs](http://www.saturna.com/sbs)) for more details.

<sup>2</sup> Inactive accounts have effected no trades from January 1 through December 31 and have had one or more security positions for the entire year, not including sweep account money market funds. Please see the Saturna Brokerage Services Commission Schedule for more details.

<sup>3</sup> Withdrawals may be subject to income taxes, and if taken before age 59½, may be subject to tax penalties.

<sup>4</sup> While Saturna does not have a specific charge for inbound transfers, the previous custodian may charge for the outbound transfer.

All mutual funds have investment and operational expenses, including regular reports to fund investors.

## Have questions or need help?

**Email:** [info@saturna.com](mailto:info@saturna.com)

**Local:** 360-734-9900

**Toll-free:** 800-728-8762

*Please consider an investment's objectives, risks, charges, and expenses carefully before investing. To obtain this and other important information about Saturna's affiliated mutual funds in a current prospectus or summary prospectus, please visit [www.saturna.com](http://www.saturna.com) or call toll free 1-800-728-8762. Please read the prospectus or summary prospectus carefully before investing.*

*Investing involves risk, including the risk that you could lose money.*

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888-732-6262