

South Carolina Tuition Prepayment Program MASTER AGREEMENT

Section I – INTRODUCTION

1.01 General. The master agreement describes certain terms and conditions related to participation in the South Carolina Tuition Prepayment Program (Program), as authorized in Chapter 4, Title 59, South Carolina Code of Laws, 1976, as amended, and State Regulations R19-1200 through R19-1298. A contributor may be an individual, corporation, partnership, association, trust, nonprofit organization, any legally recognized organization that has the authority to enter into contracts, or other entities approved by the Treasurer. Joint individual contributors are permitted; however, one contributor must be named as the primary party responsible for contract obligations. For details about contributors, please see R19-1230 and R19-1265. The contributor may, without consent or authorization of a joint contributor, execute all contract changes, conversions, transfers, terminations, and refund requests. Any request to change the contributor designated on a tuition prepayment contract must be signed by the contributor and the new contributor and notarized. After the Program receives a completed enrollment form for a tuition prepayment contract, the Program will issue a payment schedule to the contributor. The enrollment form, the master agreement, and the payment schedule constitute the terms and conditions of the tuition prepayment contract between the contributor and the Program. The payment schedule describes the specific individual plan by which the contributor and the designated beneficiary are identified, and describes the due dates and amounts of payments required of the contributor under the selected payment plan.

Section II - STATUTES AND REGULATIONS

2.01 Program Legislation and Regulations. The provisions of Chapter 4, Title 59, South Carolina Code of Laws, as amended and as may be amended, (South Carolina Tuition Prepayment Program Act), and the South Carolina Tuition Prepayment Program Regulations contained in Chapter 19, Article 12, 2003 South Carolina Code of Regulation, and any subsequent amendments, shall apply to the tuition prepayment contract and are incorporated by reference. A copy of the Program legislation and regulations are available on the Program website, www.scgrad.org, or by calling 1-888-772-4723.

Section III – DEFINITIONS

3.01 The following items are defined in the Program regulations, at R19-1200: Average Tuition; Board (whose authority over and responsibilities for the Program and the Program Fund were transferred to the Treasurer by Act No. 410 during the 113th Session of the South Carolina General Assembly); College or University; Contributor; Designated Beneficiary; Director; Disabled; Fund; Independent Institution of Higher Learning; Member of the Family; Payment; Payment Schedule; Program; Projected Enrollment Date; Tuition; and Tuition Prepayment Contract.

3.02 Additional definitions used in the tuition prepayment contract are:

- A. Joint Contributor.** “Joint contributor” means a person, or persons, listed on the tuition prepayment contract and who will enjoy the right of survivorship as outlined in section 10.02 of this master agreement.
- B. Mandatory Fee.** “Mandatory fee” means the fees charged by qualified Postsecondary institutions as a condition of enrollment of all full-time students, regardless of class, including but not limited to matriculation fee, infirmary fee, and capital improvement fee, as applicable to the individual institution. Mandatory fee does not under any circumstance include the expenses for student housing, meal plans, books, class or lab supplies and equipment, uniforms and laundry, transportation, course-specific fees, or any other fees or charges the Program did not consider in the determination of the annual contract pricing structure, regardless of how these fees are characterized by the institution.
- C. Residency.** “Residency” means that a designated beneficiary must have been domiciled in the State of South Carolina for no less than twelve (12) consecutive months prior to and including the date the contributor signs the application. If the designated beneficiary is under the age of

one (1) year, he or she must have been born in South Carolina and have been domiciled in the State continuously from birth through the date the contributor signs the application.

Section IV - OPTIONAL TUITION PREPAYMENT PROGRAM PLANS

4.01 General. South Carolina offers two types of tuition prepayment plans during each application period. A tuition prepayment contract may be purchased for benefits to cover the cost of the designated beneficiary's tuition for two years at a college or university or a contract may be purchased to cover the cost of tuition for the full four years at a college or university. Two separate contracts may be purchased for the same designated beneficiary as long as both contracts are for only two years of tuition benefits. See R19-1230 for details concerning this use of two contracts for one beneficiary. The contract types are described in R19-1255.

Section V - USE OF PROGRAM BENEFITS

5.01 Tuition Prepayment Program Benefits. A designated beneficiary may attend any combination of a college or university, a state-chartered, public two-year regional campus of a senior institution, and a state-chartered, public technical college, all as described in R19-1210, for the number and type of undergraduate semester hours specified in the payment schedule. The number of semester hours that may be purchased for a designated beneficiary may not exceed the number of credit hours necessary for completion of an undergraduate degree at the institution in which the designated beneficiary is enrolled. Transfer of benefits to an independent institution of higher learning in South Carolina or an accredited institution of higher learning outside of South Carolina is described in R19-1210 and R19-1280. In the event of a transfer to an independent institution of higher learning in South Carolina, tuition payments in an amount equal to the average tuition charged by public colleges and universities in South Carolina or the actual tuition charged by the institution in which the beneficiary is enrolled, whichever is less, will be paid to that institution. This benefit similarly may be applied to any out-of-state postsecondary institution, with the addition of an administrative processing fee.

Section VI - PAYMENTS AND ACCOUNTS

- 6.01 General.** Contributors can pay for the tuition prepayment contract through a number of possible payment options including a one-time lump sum payment, a four-year monthly installment plan, or a long term payment plan designed to fit into a monthly budget. The regulations explain monthly payment requirements in R19-1240, R19-1242, and R19-1245. The payment schedule is established upon enrollment in SCTPP and is incorporated into the tuition prepayment contract.
- 6.02 Payment Due Date.** Payments are due in the amounts and on the dates specified in the payment schedule.
- 6.03 Accounts.** The Program pools all payments into one large Fund, while maintaining a separate accounting for each participant. The Fund is invested with the goal of achieving a rate of return that is higher than the rate of tuition increases. The Treasurer serves as the Fund Manager.
- 6.04 Administrative Fees.** In addition to payments, the Treasurer has adopted fees and penalties for certain administrative processes. The contributor should consult the current fee schedule.
- 6.05 Automatic Denial.** The Program must receive the contributor's initial payment before the contributor can participate in the Program. If the initial payment is not received within forty-five (45) days of the due date as established in the payment schedule, the contributor's enrollment form will be automatically voided.

Section VII - TERMINATION, CANCELLATION, AND REFUND

- 7.01 General.** Participation in the Program is strictly voluntary. The tuition prepayment contract is not a debt instrument nor does the Program extend credit to any participant. Tuition prepayment contract termination shall be voluntary on the part of the contributor. See R19-1275. Contract cancellation shall be an action by the director. See R19-1278.
- 7.02 Default.** After a contributor begins to participate in the Program, a default occurs upon a contributor's failure to make any required payment within thirty (30) days of the due date. The tuition prepayment contract may be reinstated within 180 days of the default upon compliance with R19-1250. If the tuition prepayment contract is not reinstated, then the contract is deemed canceled.

and the contributor may request a refund under R19-1295. No account earnings are applied to the refund in this case and a penalty in an amount up to \$150 will be assessed.

- 7.03 Refund.** If the designated beneficiary does not attend a qualified postsecondary institution, or the designated beneficiary reaches his or her thirtieth birthday prior to exhausting the contract benefits, the contributor can receive a refund of contributions made on behalf of the designated beneficiary. Such refunds are considered non-qualified distributions of Program funds. After one year of participation in the Program, account earnings are applied to the refund in this case and a 10 percent (10%) IRS penalty applies to the earnings. The Program also will assess a penalty in an amount up to \$150. Account earnings are not applied to refunds requested within one year of the first contractual payment due date. Refunds as a result of scholarship, death, or disability of the designated beneficiary are not penalized and include either the original purchase price plus the compounded rate of return earned by the Fund or the current tuition charged at colleges and universities in South Carolina, whichever is less. Instead of requesting a refund, the contributor may substitute an eligible beneficiary.
- 7.04 Fraud or Misrepresentation.** If the director determines fraud or misrepresentation on the part of the contributor, the tuition prepayment contract may be canceled. No account earnings are applied to a refund in this case and a penalty in an amount up to \$500 will be assessed.
- 7.05 Administrative Fees.** The Treasurer has adopted fees and penalties for certain administrative processes. The contributor should consult the current fee schedule available on the Program website, www.scgrad.org, or by calling 1-888-772-4723.
- 7.06 Cancellation by the State.** If the State determines that the Fund is no longer fiscally or actuarially sound, the State may discontinue the Program and cancel all tuition prepayment contracts. See R19-1278. In this instance, the State will determine the level of refunds dependent upon available monies in the Fund. This refund to each Contributor shall not be less than the sum total of the contributor's payments less any administrative fees owed or paid by the contributor and minus any amounts paid by the Fund to a college or university or other qualified institution of higher learning on behalf of the Contributor's designated beneficiary, plus interest on these contributions from the date payment is made at the rate of at least four percent per annum. Any act or undertaking of the Program shall not constitute a debt of the State or any agency, department, institution, or political subdivision, or a pledge of the full faith and credit of the State or any agency, department, institution, or political subdivision, but is payable solely from the Fund.
- 7.07 Refunds Issued by the Institution of Higher Education.** In the event that a college or university issues a refund in full or in part to the beneficiary, contributor, or any party on behalf of either, at any time after a payment(s) is made to that college or university by SCTPP for payment of tuition and mandatory fee expenses of the beneficiary, the beneficiary is responsible for notifying the Program of the refund amount and the reason for the refund. If the Program or the IRS determines that the refund by the college or university constitutes a non-qualified distribution of Program benefits, the beneficiary shall be responsible for any federal and State taxes owed, the applicable IRS penalty, and any pertinent Program administrative fees.

Section VIII - CHANGES TO THE TUITION PREPAYMENT CONTRACT

- 8.01 Substitution of Designated Beneficiary.** The contributor is permitted to substitute a new designated beneficiary for the benefits of the tuition prepayment contract as described in R19-1272. An administrative fee for substitution of the designated beneficiary will be assessed, except in the case of death or disability of the original designated beneficiary.
- 8.02 Change in Payment Option.** The contributor may change from one payment option to another only during an official enrollment period as published annually by the Program. Additional payments and administrative fees will ordinarily be assessed.
- 8.03 Change of Contributor.** Requests to change a contributor must be submitted in writing to the director for review to determine compliance with R19-1265 and R19-1230(B). An administrative fee will be required for this change as provided in the then current fee schedule.

Section IX - EXERCISING PROGRAM BENEFITS

- 9.01 Acceleration of Enrollment Date.** If the contributor intends to accelerate the payment of the benefits of the tuition prepayment contract, the contributor must provide written notice to the director no less than one hundred eighty (180) days before the new college or university enrollment date and make additional payments as required. Any change in enrollment date will require payment of an administrative fee as provided in the then current fee schedule.
- 9.02 Limitations.** According to R19-1285, a tuition prepayment contract which has not been terminated or the benefits exhausted by the time the designated beneficiary reaches his or her thirtieth (30th) birthday is canceled; however, up to forty-eight (48) continuous months expended by a designated beneficiary as an active duty member of any branch of the armed services of the United States of America may be added to the time specified pursuant to the terms of the tuition prepayment contract.

Section X - MISCELLANEOUS PROVISIONS

- 10.01 Notices, Changes, and Choices.** All notices, changes, and choices made under the tuition prepayment contract must be in writing, signed by the contributor (**most changes must be notarized and imprinted with the notary seal**), and received by the Program at the address listed on the payment schedule. The Program is not responsible for the validity of such documentation. The director may require additional supportive documentation.
- 10.02 Joint Contributor's Right.** The right of a joint contributor as provided in the tuition prepayment is limited solely to right of survivorship in the event of the primary contributor's death. The joint contributor has no right to direct tuition prepayment contract changes, transfers, or terminations. Refunds shall be made payable to the primary contributor only. A primary contributor may modify or terminate the tuition prepayment contract and receive a refund without the consent or authorization of a joint contributor.
- 10.03 Additional Fees.** Postsecondary institutions charge fees in addition to the mandatory fees described here. The designated beneficiary will bear the cost of any such additional fees which may include, but are not limited to, application fees, health fees, athletic fees, laboratory fees, dormitory fees, meal plan fees, book expenses, security deposits, and student activity fees.
- 10.04 Disclaimer.** Nothing in the tuition prepayment contract or any supporting documentation must be construed as a promise or guarantee that a designated beneficiary may be admitted to a college or university or any other postsecondary institution, allowed to continue enrollment at a college or university or any other postsecondary institution after admission, or be graduated from a college or university or any other postsecondary institution.
- 10.05 Tax Status.** The Program is a "Qualified Tuition Plan" as provided in Sec. 529 of the U.S. Internal Revenue Code. Generally, there is no income tax due from the contributor or the designated beneficiary on the return on the Fund until tuition prepayment contract benefit(s) and/or refund(s) are received. Program benefits receive favorable tax treatment at both the State and federal levels. Currently, account earnings are exempt from South Carolina and federal individual income taxation when withdrawals are used for qualified educational expenses. Future changes in federal and South Carolina legislation may result in revisions to the manner in which these benefits are taxed. The application and impact of tax laws vary widely based upon the specific facts involved. Accordingly, this information is not intended to serve as legal, accounting, or tax advice. Contributors and designated beneficiaries should consult their professional tax advisor(s).
- 10.06 Securities Status.** In response to a request by the State, the Securities and Exchange Commission has issued a "No Action" letter determining that sales of tuition prepayment contracts, as currently authorized by the South Carolina Statutes, Program regulations, and the terms of this master agreement, are not subject to the enforcement provisions of the securities laws of the United States.
- 10.07 Interpretation and Enforcement.** The tuition prepayment contract is to be interpreted under the laws of the State of South Carolina. Any legal action that arises pursuant to or by virtue of the tuition prepayment contract must be commenced only in the courts of the State of South Carolina. No action for damages shall be allowed and any legal action related to the tuition prepayment contract is limited to equitable relief.
- 10.08 Severability.** In the event that any clause or portion of the tuition prepayment contract is found to be invalid or unenforceable by a court of competent jurisdiction, that clause or portion shall be

severed from the tuition prepayment contract and the remainder of the tuition prepayment contract will remain in full force and effect.