



PENNSYLVANIA  
**TREASURY**  
529 COLLEGE SAVINGS PROGRAM

# PA 529 INVESTMENT PLAN

## IP DISCLOSURE STATEMENT

APRIL 2012



THIS DISCLOSURE STATEMENT CONTAINS IMPORTANT INFORMATION TO BE CONSIDERED BEFORE MAKING A DECISION TO CONTRIBUTE TO THE PENNSYLVANIA 529 INVESTMENT PLAN ("PA 529 IP") UNDER THE PENNSYLVANIA 529 COLLEGE SAVINGS PROGRAM ("PA 529"), INCLUDING INFORMATION ABOUT RISKS, FEES, AND EXPENSES. IT SHOULD BE READ THOROUGHLY AND RETAINED FOR FUTURE REFERENCE. NO ONE IS AUTHORIZED TO PROVIDE INFORMATION THAT IS DIFFERENT FROM THE INFORMATION IN THIS DISCLOSURE STATEMENT.

**ACCOUNTS NOT INSURED OR GUARANTEED**

ACCOUNTS ESTABLISHED UNDER THE PA 529 IP, INCLUDING BOTH CONTRIBUTIONS AND INVESTMENT RETURN ON THOSE CONTRIBUTIONS, IF ANY, ARE NOT INSURED OR GUARANTEED BY THE COMMONWEALTH OF PENNSYLVANIA, THE PENNSYLVANIA TREASURY DEPARTMENT, PA 529, OR ANY CONSULTANT, CONTRACTOR, OR ADVISOR RETAINED BY THE COMMONWEALTH, THE TREASURY DEPARTMENT, OR PA 529. ACCOUNT OWNERS IN THE PA 529 IP ASSUME ALL INVESTMENT RISK, INCLUDING THE POTENTIAL LOSS OF CONTRIBUTIONS AND LIABILITY FOR ADDITIONAL INCOME TAXES OR PENALTIES SUCH AS THOSE LEVIED FOR NON-QUALIFIED WITHDRAWALS.

**SECURITIES NOT REGISTERED**

THESE INVESTMENT PRODUCTS HAVE NOT BEEN REGISTERED WITH THE U.S. SECURITIES AND EXCHANGE COMMISSION OR WITH ANY STATE SECURITIES COMMISSION. NEITHER THE U.S. SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED INTERESTS IN THE PA 529 IP OR PASSED ON THE ADEQUACY OF THIS DISCLOSURE STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

**TAX AND OTHER ADVANTAGES OF HOME STATE PROGRAMS**

FOR RESIDENTS OF STATES OTHER THAN PENNSYLVANIA, IF YOUR STATE OR THE BENEFICIARY'S STATE OF RESIDENCY (IF DIFFERENT) SPONSORS A 529 PLAN, THAT PLAN MAY OFFER STATE INCOME TAX AND OTHER BENEFITS NOT AVAILABLE TO YOU THROUGH THE PA 529 IP. IF YOU ARE NOT A PENNSYLVANIA TAXPAYER OR RESIDENT, PLEASE CONSULT YOUR FINANCIAL ADVISOR, TAX ADVISOR, OTHER ADVISOR, OR YOUR HOME STATE'S 529 PROGRAM TO LEARN MORE ABOUT HOW STATE-BASED BENEFITS (OR ANY LIMITATIONS) WOULD APPLY TO YOUR SPECIFIC CIRCUMSTANCES.

**OTHER PLANS AVAILABLE FROM THE COMMONWEALTH OF PENNSYLVANIA**

THIS DISCLOSURE STATEMENT PERTAINS TO THE PA 529 IP. THE COMMONWEALTH OF PENNSYLVANIA ALSO OFFERS THE PA 529 GUARANTEED SAVINGS PLAN (THE "PA 529 GSP"). THE PA 529 IP AND THE PA 529 GSP OFFER SIMILAR BENEFITS AND TAX ADVANTAGES. THEIR PRIMARY DIFFERENCE IS THEIR METHOD OF GROWTH. GROWTH ON A PA 529 GSP ACCOUNT, WHEN USED FOR QUALIFIED HIGHER EDUCATION EXPENSES, IS BASED ON TUITION INFLATION, WHEREAS THE RETURN ON A PA 529 IP ACCOUNT IS BASED ON INVESTMENT PERFORMANCE. FOR DETAILS ABOUT THE PA 529 GSP, PLEASE OBTAIN AND CAREFULLY READ THE SEPARATE DISCLOSURE STATEMENT FOR THE PA 529 GSP, WHICH MAY BE OBTAINED BY CALLING CUSTOMER SERVICE AT 1-800-440-4000 OR ONLINE AT [WWW.PA529.COM](http://WWW.PA529.COM).

**Information in this disclosure statement is believed to be accurate as of the date of this disclosure statement and is subject to change without notice.**

# PENNSYLVANIA 529 INVESTMENT PLAN

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## PA 529 IP – AT A GLANCE

Nature of the PA 529 IP	The PA 529 IP is one of two Section 529 college savings plans offered by the Commonwealth of Pennsylvania to assist individuals and families in saving for higher education in a tax-advantaged way. The underlying investments used in the PA 529 IP are Vanguard® mutual funds.
Role of PA Treasury	The PA 529 IP is administered by the Pennsylvania Treasury Department. The Department chooses the underlying Vanguard mutual funds and the allocations within the Investment Options, monitors investment performance, and provides marketing and customer service for the Plan. Pursuant to a contract expiring in 2016, the Pennsylvania Treasury Department serves as Program Manager, and Upromise Investment Advisors, LLC (“Upromise”), serves as Recordkeeping and Servicing Agent. Investment management services are provided by The Vanguard Group, Inc. (“Vanguard”). See Part 1.B.
Account Owner	The PA 529 IP is open to all U.S. citizens and resident aliens, 18 years or older, who have a Social Security Number or other taxpayer identification number and have a U.S. permanent address that is not a P.O. Box. Corporations and certain other types of entities may participate in the Plan. See Part 2.A.2.
Beneficiary	The Beneficiary may be a U.S. citizen or resident alien, with a Social Security Number or individual taxpayer identification number, of any age, from newborn to adult. You can only change the Beneficiary or transfer a portion of the Account to a different Beneficiary if the two Beneficiaries are specified members of the same family. There are no adverse tax consequences as a result of such a change. See Part 2.A.3.
Contributions	Anyone may make contributions, regardless of the contributor’s income. <u>Initial Contribution:</u> \$25 minimum (\$15 through payroll deduction, if available). <u>Additional Contributions:</u> \$25 minimum (\$15 also through payroll deduction, if available). You may also receive a minimum contribution of \$25 through Ugift®—Give College Savings. <u>Maximum Contribution Limit:</u> \$368,600 — Accounts for the same Beneficiary that have reached the Maximum Contribution Limit may continue to accrue earnings, but additional contributions are prohibited. See Part 2.B.
Investment Options	13 different Investment Options, managed by Vanguard: <ul style="list-style-type: none"> <li>• Three Age-based Options.</li> <li>• Ten Individual Portfolios, including a Socially Responsible Portfolio.</li> </ul> See Part 2.C.
Risk Factors of the PA 529 IP	Investing in the PA 529 IP involves certain risks, including (1) the possibility that you may lose money, (2) the risk of federal and/or state tax law changes, (3) the risk of any PA 529 IP changes, including changes in fees, and (4) the risk that contributions to an Account may adversely affect the eligibility of the Beneficiary or the Account Owner for federal financial aid or other benefits. See Part 2.C.4.
Fees and Charges	Asset-based management fee ranges from 0.48% to 0.62%, depending on the Investment Option. Other charges also may apply. See Part 2.C.6.
Tax Advantages	<ul style="list-style-type: none"> <li>• Earnings accrue free from federal income tax, and there is no federal income tax on Qualified Withdrawals. (The earnings portion of Non-qualified Withdrawals is subject to federal income tax and may be subject to a 10% federal tax penalty.)</li> <li>• For Pennsylvania taxpayers, earnings on Qualified Withdrawals are not subject to Pennsylvania income tax. (Non-qualified Withdrawals are likely to be subject to Pennsylvania state income tax.) Depending upon the state where you live or pay state income tax, your earnings may or may not be subject to state income tax.</li> <li>• Up to a \$13,000 per year deduction from Pennsylvania state taxable income for single filers (\$26,000 if married filing jointly provided that each spouse has taxable income of at least \$13,000) per Beneficiary.</li> <li>• No gift tax on contributions up to \$65,000 (single) and \$130,000 (married filing jointly)—prorated over five years.</li> </ul> <p>Note: Contributions to any 529 college savings plan are not deductible for federal income tax purposes. See Part 3.</p>

<p>Exclusive PA Home State Advantages</p>	<p>If you are a Pennsylvania resident, there are several advantages to saving in the PA 529 IP that are not available to you if you use an out-of-state 529 plan. These include having the assets in your Account:</p> <ul style="list-style-type: none"> <li>• Excluded when your student's state financial aid is determined.</li> <li>• Excluded from Pennsylvania inheritance tax.</li> <li>• Protected from creditors of you or the Beneficiary.</li> <li>• Earn guaranteed tuition discounts for your student at over 280 private schools that participate in SAGE Scholars. See Part 3.B.</li> </ul>		
<p>Qualified Withdrawals</p>	<p>Your Account can be used to pay for tuition, room and board (with limitations), books, supplies, fees, equipment required for enrollment or attendance, and expenses for special-needs services incurred in connection with enrollment or attendance at any eligible postsecondary school in the United States or abroad. See Part 2.D.</p>		
<p>Account Control</p>	<p>As Account Owner you:</p> <ul style="list-style-type: none"> <li>• Retain control of how and when the money is used.</li> <li>• Can change the Beneficiary without paying federal income tax or a penalty, if the new Beneficiary is a qualifying Family Member of the former Beneficiary.</li> <li>• Can take the money back, subject to applicable federal taxes on earnings and a 10% federal penalty tax on earnings. State income tax may also apply. See Part 2.A.2.</li> </ul>		
<p>Online Applications and Account Information</p>	<ul style="list-style-type: none"> <li>• Account Owners may enroll online or obtain an Enrollment Application at <b>PA529.com</b> or by mail.</li> <li>• Account Owners may choose to receive some Account information correspondence online, rather than in paper format.</li> <li>• Some Account activities can be completed online, including Account maintenance. See Part 2.A.1.</li> </ul>		
<p>Privacy Policy</p>	<p>All information you provide to the PA 529 IP is treated confidentially. Upromise is obligated to treat the information you provide to PA 529 confidentially.</p>		
<p>Contact Information</p>	<p style="text-align: center;">Pennsylvania 529 Investment Plan</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 50%; vertical-align: top;"> <p>Office: Suite 529, South Drive Harrisburg, PA 17120-0600</p> <p><b>Website:</b> www.PA529.com <b>E-mail:</b> PAIP@ptreasury.gov <b>Phone:</b> 1-800-440-4000</p> </td> <td style="width: 50%; vertical-align: top;"> <p>Processing Center: P.O. Box 55378 Boston, MA 02205-5378</p> </td> </tr> </table>	<p>Office: Suite 529, South Drive Harrisburg, PA 17120-0600</p> <p><b>Website:</b> www.PA529.com <b>E-mail:</b> PAIP@ptreasury.gov <b>Phone:</b> 1-800-440-4000</p>	<p>Processing Center: P.O. Box 55378 Boston, MA 02205-5378</p>
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## Part 1. General Description of the Pennsylvania 529 Investment Plan

### A. Program Summary

This Program Summary provides a general overview of the Pennsylvania 529 Investment Plan (the "PA 529 IP"). The topics discussed in this Program Summary are discussed in more detail later in this Disclosure Statement. Before investing, please read the entire Disclosure Statement carefully to ensure that you fully understand the PA 529 IP.

**What is the PA 529 IP?** The PA 529 IP is one of two Plans in the Pennsylvania 529 College Savings Program, which is a tax-advantaged college savings program created under the authority of the laws of the Commonwealth of Pennsylvania ("Enabling Law") that is designed to help people save for the costs of education after high school – including college, trade schools, career schools, and graduate and professional schools nationwide and even some abroad. Pursuant to the Enabling Law, the Pennsylvania Treasury Department (the "Department") administers the PA 529. The other Plan offered by the PA 529 is the Pennsylvania 529 Guaranteed Savings Plan (the "PA 529 GSP"). Both Plans are designed to be qualified tuition programs under Section 529 ("Section 529") of the Internal Revenue Code of 1986, as amended (the "Tax Code"). Both offer similar benefits and tax advantages. Their primary difference is their method of growth. Contributions to a PA 529 IP Account ("Account") grow based on investment performance. In contrast, contributions to a PA 529 GSP Account, when used for Qualified Higher Education Expenses, grow based on tuition inflation. This Disclosure Statement covers only the PA 529 IP. For a Disclosure Statement for the PA 529 GSP, call Customer Service at 1-800-440-4000 or go online at PA529.com.

The PA 529 IP offers investment vehicles that are similar to mutual funds. You can choose among 10 fixed-allocation Investment Options ("Individual Portfolios") that have different mixes of stock funds, bonds funds, and a money market fund ranging from aggressive (100% stocks) to conservative (100% money market). The asset allocations (mix of stocks, bonds, and cash) of the Individual Portfolios are static; that is, they do not change over time. You may also choose among three "Age-based Options" (Aggressive, Moderate, and Conservative). Unlike the Individual Portfolios, the assets in the Age-based Options automatically change from more aggressive allocations to more conservative allocations as the future student approaches college age. Each of the Investment Options invests in Vanguard mutual funds (the "Underlying Funds"). The Underlying Funds are mostly index and money market mutual funds. Although money contributed to the PA 529 IP will be invested in Investment Options that hold Vanguard mutual funds, neither the PA 529 IP, nor any of the PA 529 IP's Investment Options, are mutual funds. An investment in the PA 529 IP is an investment in municipal fund securities that are issued and offered by the Program.

**What are the tax advantages?** There are numerous federal and state tax advantages, which are described in more detail later in this Disclosure Statement. Briefly, the federal tax advantages are that the growth, if any, on contributions is tax-deferred and, if used for Qualified Higher Education Expenses, is tax exempt. There are also specific federal gift and estate tax provisions and generation-skipping transfer tax advantages and consequences. For Pennsylvania taxpayers, the growth is tax deferred for state income tax purposes and, if used for Qualified Higher Education Expenses, tax exempt. Additionally, within limits, contributions made into an Account may be deducted from your Pennsylvania taxable income.

**What benefits are exclusive to the PA 529?** Several benefits are available to you only if the Section 529 college savings plan you use is a Pennsylvania 529 Plan – either the PA 529 IP or PA 529 GSP. These exclusive benefits include:

- **Pennsylvania state financial aid protection.** Assets held in a PA 529 Account – no matter how large – are not counted in determining Pennsylvania state financial aid. Assets of a parent or student held in any other 529 plan are counted.
- **Pennsylvania inheritance tax exclusion.** Assets held in a PA 529 Account are not included in a deceased's assets for Pennsylvania inheritance tax purposes. Assets held in any other 529 plan are fully counted – regardless of the size of the deceased's assets. The inheritance tax rate varies depending on the relationship between the deceased and the heir; for children or grandchildren, it is currently 4.5% of the entire value of the asset – not just the growth.
- **Protection from creditors.** In Pennsylvania state proceedings, assets held in a PA 529 Account are protected from creditors of the Account Owner or Beneficiary. Assets in an out-of-state 529 plan have no such protection.
- **SAGE Tuition Rewards.** Savings in a PA 529 Account can earn SAGE tuition rewards, which provide student tuition discounts at over 280 private colleges nationwide, with 50 in Pennsylvania. Normally discounts are earned at the rate of 1.25% of the value of the Account quarterly (about 5% annually), but through December 31, 2012, discounts will be earned at the rate of 2.50% per quarter (about 10% annually). Each participating college sets the maximum discount that it will honor – typically one year of tuition spread over four years. As of September 2011, this ranges from \$8,500 to \$42,420. [Note: SAGE is also available through the Wisconsin 529 plan.]

**Who can open an Account and for whose benefit?** Any adult (18 or older) who is a U.S. citizen or resident alien and who has a Social Security Number or taxpayer identification number and a permanent U.S. address can open a PA 529 IP Account to save for the future higher education expenses of any person, including himself or herself.

The Account Owner can change the Beneficiary at any time, as long as the new Beneficiary is a Family Member (see definition at Part 2.A.3.c.) of the previous Beneficiary.

**What schools and what expenses can an Account be used for?** An Account can be used to pay for “Qualified Higher Education Expenses” at “Eligible Educational Institutions.” For ease of reference, these combined requirements are referred to throughout this Disclosure Statement as “Qualified Expenses.” These terms are defined by the Tax Code. “Qualified Higher Education Expenses” generally include: tuition; mandatory fees; required books, supplies, and equipment; room and board; and special needs services for special needs students.

There are limitations and conditions in order for room and board to be a Qualified Expense. The Beneficiary must be at least a half-time student (generally taking six or more academic credits). If living on campus, the full amount charged by the school is a Qualified Expense. If living off-campus, the amount is limited to the room and board cost used by the school being attended in its “cost of attendance” calculation. “Eligible Educational Institutions” include most American and many foreign colleges and universities, for undergraduate and graduate programs, and many career and trade schools. The determining criterion is that the school must be eligible to participate in the U.S. Department of Education’s student financial aid programs. A search for such schools is available at PA529.com by clicking on the “Resources” link and going to “Eligible Educational Institutions.” Withdrawals made to pay for Qualified Expenses are called “Qualified Withdrawals.”

**Can an Account be used for other purposes?** Yes. You can access your Account at any time for any reason. Withdrawals used to move your funds to another 529 plan are “Transfers” or “Rollovers.” Withdrawals used for any other purpose are called “Non-qualified Withdrawals.” There may be federal and state tax consequences for Transfers or Rollovers that are not consistent with federal requirements and for Non-qualified Withdrawals. The number of Rollovers and Transfers that may be taken in a given period of time may be limited. (See Part 2.D.)

529 plans are intended to be used only to save for Qualified Higher Education Expenses. 529 plans are not intended to be used, nor should they be used, by any taxpayer for the purpose of evading federal or state taxes or tax penalties. Taxpayers may wish to seek tax advice from an independent tax advisor based on their own particular circumstances.

**What are the fees?** The PA 529 IP charges an annual asset-based fee, which ranges from 0.48% to 0.62%, depending on the investment option you choose. (See Part 2.C.6.) The PA 529 IP does not charge an enrollment fee or an annual account maintenance fee.

## B. Role of Department

The Department administers the PA 529 IP and serves as the Program Manager. Among the Department’s major responsibilities are: establishing investment guidelines; choosing the underlying mutual funds that comprise the Plan’s Investment Options and determining the asset allocation of each Investment Option; accepting and crediting contributions; processing requests for withdrawals; providing customer service; and marketing the Plan. Pursuant to its authority to contract with other entities to perform services for the PA 529 IP, the Department has contracted with Upromise to perform recordkeeping and processing services and with Vanguard to provide investment management services.

## Part 2. How the PA 529 IP Works

### A. Opening and Maintaining Your PA 529 IP Account

#### 1. The enrollment process

To open a PA 529 IP Account, you must complete and submit an Enrollment Application along with an initial contribution. An initial contribution is not required if you establish an Automatic Investment Plan (AIP) or indicate you will be making a Rollover from another 529 account and initiate the Rollover process. (See Part 2.B.7.c., g., h., and i.) You can enroll and make an initial contribution or establish an AIP online; download, complete, and mail the Enrollment Application; or obtain the Enrollment Application by calling Customer Service at 1-800-440-4000, complete it, and mail it. By signing and submitting the Enrollment Application, you agree that your Account is subject to the terms and conditions of the PA 529 IP Contract, of which this Disclosure Statement and the PA 529 IP Participation Agreement (Appendix A) are a part.

On the Enrollment Application, you must provide information and make several required designations. You must designate a “Beneficiary,” who is the future student, and your selection of Investment Options. These designations can be changed, subject to some limitations. (See Part 2.A.3.b. and Part 2.C.1.a.) To access your Account online, you simply register your Account by setting up a user name and password. Once you have web registered, you can obtain Account information at any time and make changes to your Account. Web registering helps you get the most out of your Account.

If making an initial contribution, it will be credited to your Account when the Enrollment Application is received and all required information has been completed in good order.

The address you provide must be your U.S. permanent address and cannot be a Post Office Box. Any subsequent address changes can be made by accessing "My Account" at PA529.com, by calling Customer Service at 1-800-440-4000, or by submitting a signed written request. Whenever an address is changed, a confirmation of the change will be mailed to both the old and new addresses.

If you own more than one PA 529 Account and you change your address on some but not all of your Accounts, the PA 529 IP reserves the right to change the address on all your Accounts to conform to the address most recently given. Additionally, on a periodic basis, the PA 529 IP will utilize the National Change of Address (NCOA) database maintained by the U.S. Postal Service to verify the accuracy of Account addresses and will conform the Account record to the NCOA database information.

In the event that an Account Owner's address of record becomes invalid and the PA 529 IP has made a reasonable attempt to obtain a correct address, the PA 529 IP reserves the right to contact other individuals whose information has been provided to the PA 529 IP including the Beneficiary, Successor Owner, or Authorized Agent(s) for the purpose of updating Account Owner information.

On the Enrollment Application, you may also make other optional designations, including naming a Successor Owner and enrolling in SAGE Scholars Tuition Rewards. See below for more details about these optional designations.

## **2. The Account Owner and related designations**

### **a. The initial Account Owner**

To open an Account, an individual must (1) be a U.S. citizen or resident alien, (2) be 18 years of age or older, (3) have a Social Security Number or other taxpayer identification number, and (4) have a U.S. permanent address that is not a P.O. Box. A corporation, association, partnership, trust, or other legal entity also may establish an Account. Persons opening an Account on behalf of an entity must provide documentation of the person's authority to act for the entity. State or local government organizations and tax-exempt organizations described in Section 501(c)(3) of the Tax Code may also open PA 529 IP Accounts as part of a scholarship program.

The PA 529 IP obtains from each person who opens an Account certain personal information – including name, street address, Social Security Number or other taxpayer identification number, and date of birth, among other information – that will be used to verify identity. If you do not provide this information, an Account will not be opened for you. If the PA 529 IP is unable to verify your identity, the PA 529 IP reserves the right to close your Account or take other steps it deems reasonable.

The Account Owner controls the Account, making any required designations, permitted changes, and withdrawal requests. Contributions made to the Account by any others, while considered gifts to the Beneficiary under federal law, come under the control of the Account Owner.

### **b. Granting others ("Authorized Agents") access to the Account**

Only one person can be the Account Owner and that person has control of the Account. While joint owners are not permitted, the Account Owner can grant other individuals the ability to access information about the Account and/or to take specified actions on the Account. If you wish, you may allow an individual(s) to have any one of four levels of access to or control of the Account:

- Level 1: Access information and Account statements only.
- Level 2: Level 1 permissions plus permission to make electronic contributions and make investment option changes.
- Level 3: Level 2 permissions plus permission to authorize withdrawals (both Qualified and Non-qualified).
- Level 4: Have full control.

You may call Customer Service at 1-800-440-4000 to designate an Authorized Agent at Level 1. For all other Levels, you must complete the Limited Power of Attorney/Agent Authorization Form (for Levels 2 or 3) or the Power of Attorney Forms (for Level 4). These Forms are available at the PA529.com website or by calling Customer Service at 1-800-440-4000. Please note that for Levels 2-4, the Form must be notarized. Your designations may be changed or revoked at any time in writing for Levels 2-4 and over the phone for Level 1.

### **c. Change of ownership upon death or incapacity of Account Owner**

You may designate a Successor Owner who will become the owner of your Account upon your death or incapacity, to the extent permitted by applicable law, upon submission of documentation of your death or disability. Your Successor Owner may be required to complete a PA 529 IP Enrollment Application. Since laws vary from state to state, you may wish to consult a probate

lawyer to determine the precise effect of such a designation. You may designate a Successor Owner by completing the appropriate section of the Enrollment Application. Additionally, you can add, change, or revoke a Successor Owner at any time by submitting an Account Information Change Form or through "My Account" access on the PA529.com website.

If you do not designate a Successor Owner and you die, ownership of the Account will be determined by your will. If you die without a will, pursuant to the terms of your PA 529 IP Contract, if permitted by applicable law: (1) ownership will pass to your surviving spouse; (2) if there is no surviving spouse, ownership will pass to the Beneficiary if he or she has reached the age of majority; and (3) if there is no surviving spouse and the Beneficiary is a minor, ownership will pass pursuant to the laws governing property of a person who dies without a will.

In the event of your death or incapacity, the Successor Owner or, if you do not designate one, the person to whom ownership of your Account is transferred as specified above, will be entitled to exercise all of the rights of an Account Owner, including the right to make Non-qualified Withdrawals and change the Beneficiary. If you wish to ensure that, in the event of your death or incapacity, the Account will be applied to pay the Qualified Higher Education Expenses of the Beneficiary you have designated, you should consult a legal advisor.

**d. Change of ownership by agreement**

The Account Owner may select a replacement Account Owner if the following three requirements are met: (1) the Account Owner to be named, if a natural person, has attained the age of 18; (2) a written statement signed by the Account Owner to be named is submitted stating that he or she agrees to be bound by the terms of the PA 529 IP Plan Contract; and (3) the existing and replacement Account Owner each certify that the change is made without consideration (that is, nothing is given in exchange for the Account ownership being changed). Such a change may only be requested in writing, signed by the original Account Owner, with a signature guarantee, and the proposed new Account Owner. The written request must include representations that each of the three conditions described above have been met. The Account Information Change Form, available at PA529.com, may be used for this purpose.

**e. Ownership of an Account established under UTMA or UGMA**

If a PA 529 IP Account is established for a minor under the Uniform Transfer to Minors Act (UTMA) or the Uniform Gifts to Minors Act (UGMA), the minor is both the Account Owner (through the custodian) and the Beneficiary. The minor must remain the Beneficiary of the Account at all times; unlike other PA 529 Accounts, the Account Owner may not change the Beneficiary. In addition, when the minor attains the age of majority specified by applicable state law, the custodian will cease to have any control over the Account and the former minor will control the Account. Also, the minor will be treated as the owner of the Account at all times, so that any taxable distribution from the Account will be treated as income of the minor (except to the extent, if any, that applicable law requires that such distribution be treated as income of the custodian).

### **3. The Beneficiary**

**a. The initial Beneficiary**

You designate the Beneficiary when you open the Account. Your Beneficiary must be a natural person of any age and need not be related to you. Anyone, including you, the Account Owner, can be a Beneficiary. Each Account may have only one named Beneficiary.

If the Account is being opened as a Scholarship Account, a Beneficiary does not need to be designated.

Except for Accounts established under UTMA or UGMA, the Account belongs to the Account Owner and not to the Beneficiary; the Beneficiary has no vested rights in the Account.

**b. Change of Beneficiary**

The Account Owner can change the Beneficiary (unless the Account was established under UTMA or UGMA) at any time. However, the new Beneficiary must be a Family Member of the prior Beneficiary, as that term is defined below. Also, a change of Beneficiary cannot be made if other PA 529 Accounts for the new Beneficiary already exist and the change would cause the total value of all Accounts (if used for Qualified Expenses) for the new Beneficiary to exceed the Maximum Contribution Limit (currently \$368,600).

A change in Beneficiary might be treated as a gift from the previous Beneficiary to the new Beneficiary in certain circumstances, and therefore may have federal gift or generation-skipping transfer tax implications. (See Part 3.A.1.b.)

The Account Owner may request to change the Beneficiary by submitting a Beneficiary Change Form. In making the request, the Account Owner must specify the relationship between the Beneficiary being replaced and the new Beneficiary.

### **c. Member of the Family**

The term “member of the family” (“Family Member”) is defined by Section 529 of the Tax Code as follows:

- Father, mother, or ancestor of either;
- Son, daughter, or a descendant of either;
- Stepfather or stepmother;
- Stepson or stepdaughter;
- Brother, sister, stepbrother, stepsister, half-brother, or half-sister;
- Brother or sister of the father or mother;
- Brother-in-law, sister-in-law, son-in-law, daughter-in-law, father-in-law, or mother-in-law;
- Son or daughter of a brother or sister;
- Spouse of the Beneficiary or of any of the individuals listed above; or
- First cousin.

For the purpose of this definition, a legally adopted child or foster child of an individual is treated as the child of that individual by blood.

## **B. Making Contributions**

### **1. Initial contribution**

An initial check or money order contribution of \$25 must be submitted with your paper Enrollment Application, unless you establish an automatic bank withdrawal referred to as an Automatic Investment Plan (AIP) or initiate a Rollover at the time of enrollment. If enrolling online, the \$25 initial contribution may be made by Electronic Bank Transfer (EBT) or by submitting a check or Incoming Rollover Form following enrollment.

### **2. Additional and minimum contributions**

You may make additional contributions to your Account at any time. The minimum additional contribution is \$25. However, many people find that the most convenient way to save is through automatic contributions through payroll deduction or AIP. If you make payroll deductions, the minimum contribution is \$15; for automatic bank transfers the minimum contribution is \$25.

Others may make contributions to your Account if they provide your PA 529 IP Account number along with the contribution. Others contributing to your Account should understand that in doing so, they relinquish control of the contribution and its growth, if any, to you. If they choose, others may make contributions to your Account through the Ugift function on the PA529.com website.

### **3. Directing contributions to Investment Options**

Each time you make a contribution to your Account, you may direct the Investment Option to which that contribution will be invested. You may allocate the contribution among a maximum of five Investment Options. For example, you may choose five Individual Portfolios, or one Age-based Option and four Individual Portfolios, etc. Regardless of how many Investment Options you select, you must allocate a minimum of 5% of your contribution to each option. For example, you could choose three Investment Options and allocate your contribution 60%, 35%, and 5%.

You may change the Investment Options in which previous contributions are already invested once per calendar year or at any time that you are changing the Beneficiary at the same time.

Please note that a decision to change the allocation of future contributions will not affect the allocation of assets already in your Account, and vice versa. For example, assume that since you opened your Account, your contributions have been allocated 60% to Option A and 40% to Option B. You decide to reallocate existing assets as follows: 70% to Option A and 30% to Option C. At the same time, you decide to allocate 100% of future contributions to Option D. You may not make any other changes to the allocation of existing assets in your Account during the current calendar year. However, you may continue to change the allocation of future contributions.

### **4. Maximum contribution limit**

Contributions to an Account may be made until the Maximum Contribution Limit is reached. Currently, the Limit is \$368,600, but is subject to change by the PA 529. To determine whether the Maximum Contribution Limit has been reached, the value of all PA 529 (both PA 529 GSP and PA 529 IP) Accounts for a Beneficiary, regardless of whether they have different Account Owners, are added together. For purposes of this addition, the value if used for Qualified Expenses is used for PA 529 GSP Accounts and the market value is used for PA 529 IP Accounts.

Accounts that have reached the Maximum Contribution Limit may continue to grow and accrue earnings, but the excess portion of any additional contribution that would cause the Account balance to exceed the Maximum Contribution Limit will not

be accepted or, if accepted, will be returned to the contributor without any earnings. The Commonwealth, the Department, the PA 529, or any of its contractors will not be responsible for any loss, damage, or expense in connection with a rejected or returned contribution.

No assurances can be given that the amount held in all PA 529 Accounts for a Beneficiary, even if they are at the Maximum Contribution Level, will be sufficient to pay the Qualified Expenses of the Beneficiary.

## **5. Pennsylvania tax deductibility of contributions**

Contributions made to a PA 529 IP are deductible from the contributor's Pennsylvania taxable income, within limits. Currently, each taxpayer may deduct up to \$13,000 for each Beneficiary each year. The deductible amount will increase with any changes in the amount excludable for federal gift tax purposes under the Tax Code. There is no limit on the number of Beneficiaries for which one taxpayer may contribute. However, the total deductions taken by one taxpayer cannot reduce the contributor's taxable income to less than zero. Married taxpayers filing jointly may each take the \$13,000 per Beneficiary deduction, as long as each has taxable income of at least the amount being deducted.

The deduction may be taken by the contributor regardless of who owns the Account. Deductions can be taken for contributions made by any method listed below (see Part 2.B.7.), except Rollovers from out-of-state 529 plan accounts, Plan Transfers between PA 529 Accounts, reallocations among Investment Options within a PA 529 IP Account, and the earnings portion of the proceeds of certain U.S. Savings Bonds.

The contribution must be made within the tax year or by check dated by December 31 of the tax year in which the deduction is taken. The deduction is claimed on the contributor's Pennsylvania income tax return (PA-40).

If you are not a Pennsylvania resident, you may want to investigate whether your state offers a 529 plan with tax advantages and other benefits to its residents.

## **6. Special federal gift tax provision for contributions**

Special federal gift tax provisions allow larger contributions to an Account to be made in a single year without adverse federal gift tax consequence. For federal tax purposes, contributions to a PA 529 IP Account generally are considered completed gifts to the Beneficiary. This means that, as with other gifts, a contribution to the Account is eligible for the applicable annual exclusion from federal gift and generation-skipping transfer taxes (as of 2011, \$13,000 for an individual or \$26,000 for a married couple). However, a special federal tax provision, applicable only to contributions to 529 plans, allows the contributor to choose to give up to five times the annual exclusion (\$65,000 for an individual and \$130,000 for a married couple) in one year and apply the contribution against the annual exclusion equally over a five-year period. For a fuller discussion of this tax advantage, see Part 3.A.1.b. below.

## **7. Methods of contributing**

Contributions can be made to your Account through any of the methods listed below. They may not be made with cash, stocks, securities, or other nonbank account assets.

### ***a. Checks and money orders***

Personal checks, cashier's checks, certified checks, and money orders may be used. Third-party checks up to \$10,000 will be accepted. Checks should be payable to "PA 529 IP" and include the PA 529 IP Account number. PA 529 IP will not accept the following: starter checks, bank courtesy checks, instant loan checks, credit card checks, traveler's checks, foreign checks not in U.S. dollars, checks dated more than 180 days before receipt, postdated checks, checks with unclear instructions, or any other check the PA 529 IP deems unacceptable.

If your check or money order is received at the physical location of our Processing Center (not just at its Post Office Box) in good order on a business day prior to the close of the New York Stock Exchange (NYSE), your contribution will be processed as of that day; if it is received after the close of the NYSE or on a non-business day, it will be processed on the next business day.

### ***b. Electronic Bank Transfer (EBT)***

You may contribute to your Account by making a one-time EBT from your bank checking or savings account when you enroll online or any time after that by accessing "My Account" at PA529.com or by calling Customer Service at 1-800-440-4000. Before making an initial EBT, you must provide certain information about the bank account from which money will be withdrawn.

If you are not the owner or a joint-owner of the bank account, you must obtain a signature guarantee. The signature guarantee must be for the individual who is the bank account owner. The signature guarantee box is provided on the appropriate PA 529 IP form.

Please note: You may only contribute up to \$130,000 per Account per day by EBT.

EBT contributions that are initiated and in good order before 10 p.m., Eastern Time, will be credited to your PA 529 IP Account effective the following business day but will be debited from your bank account on the second following business day. EBT contributions that are initiated and in good order after 10 p.m., Eastern Time, will be credited to your PA 529 IP Account effective the second following business day but will be debited from your bank account on the third following business day.

If your EBT contribution cannot be processed because the bank account on which it is drawn contains insufficient funds or because of incomplete or inaccurate information, the PA 529 IP reserves the right to suspend processing future EBT contributions.

**c. Automatic Investment Plan (AIP)**

You may contribute to your Account through periodic automated debits from a bank checking or savings account, if the bank is a member of the Automated Clearing House. You can initiate an AIP during enrollment by completing the appropriate section of the online or paper enrollment. Or, you may set up an AIP after enrolling by accessing "My Account" at PA529.com or by submitting an Automatic Investment/Electronic Bank Transfer Form.

Your bank account will be debited on the date you designate unless it falls on a weekend or a holiday, in which case it will be on the next business day. Your AIP contribution will be credited to your PA 529 IP Account effective one business day prior to the day the bank debit occurs. An exception to this may occur with a debit date of January 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup>, or 4<sup>th</sup> which might be credited in the same calendar year as the debit date. There must be at least three business days between when your AIP Form or online information is received and your first AIP debit. Quarterly AIP investments will be made on the day indicated every three months, not on a calendar quarter basis. If no date is designated, your bank account will be debited on the 20<sup>th</sup> of the month. (If the 20<sup>th</sup> is not a business day, the debit will be made on the next business day.) Authorization for your AIP contribution will remain in effect until the PA 529 IP has received notification that it has been revoked. Changes to, or revocation of, an AIP must occur at least five business days before an AIP debit is scheduled to be deducted from your bank account and are not effective until received and processed by the PA 529 IP.

If your AIP contribution cannot be processed because the bank account on which it is drawn contains insufficient funds or because of incomplete or inaccurate information or for any other reason, the PA 529 IP reserves the right to suspend processing future AIP contributions.

The PA 529 IP reserves the right to refuse to allow an Account Owner to establish automatic electronic deductions.

**d. Payroll deduction**

Depending on your employer, you may be able to have contributions made automatically from your paycheck. To do so, your employer must agree and be able to meet the PA 529 IP operational and administrative requirements. Most employers agree to process automatic paycheck contributions in the same manner that direct deposit of paychecks to employees' bank accounts are made. If your employer permits this, forms for setting up your payroll deduction are available at the PA529.com website or by calling Customer Service at 1-800-440-4000. If your employer does not permit direct deposits from your paycheck to the PA 529 IP, there may be alternative methods for making payroll deductions; please call Customer Service at 1-800-440-4000 for assistance. Payroll deductions are generally credited to your Account as of your pay date.

Please note that even when contributions are made by payroll deduction, they are made from your after-tax earnings.

**e. Contributions of Upromise Service® earnings**

You may make a contribution to your PA 529 IP Account with the savings you earn through the Upromise Rewards Service ("Upromise Service"). (For details on the Upromise Service, see Part 6.B.) If you link your Upromise Service account to your PA 529 Account, your Upromise Service earnings will automatically be contributed to your PA 529 IP Account once a quarter as long as the Upromise Service earnings not yet contributed total \$25 or more. Upromise Service contributions made to your Account may be deducted from your Pennsylvania taxable income (see Part 2.B.5.).

**f. Contributions through Ugift®—Give College Savings**

Family and friends may make contributions to your PA 529 IP through Ugift—Give College Savings ("Ugift"). To enable others to contribute to your Account using Ugift, you may either send an email invitation or provide a gift contribution coupon to those you selected. Gifts may be contributed either in connection with a special event or just to provide a gift to your Beneficiary. Gift givers simply fill in their names, the PA 529 IP Account number to which they want to contribute, and gift contribution amounts on the contribution coupon provided and mail the coupon and corresponding check, payable to "Ugift—PA 529 IP," to the address provided. The Minimum Contribution and Maximum Contribution Limits apply. The gift giver may deduct the amount of the Ugift from his or her Pennsylvania taxable income (see Part 2.B.5.).

Gift contributions associated with a special event will be held by Upromise upon receipt and transferred into your PA 529 IP Account approximately five business days after the special event. If the gift contribution is received less than two business days prior to the special event, or if the gift contribution is not associated with a special event, then the gift contribution will be held for approximately seven business days before being transferred into your PA 529 IP Account. Gift contributions will be invested according to the allocation on file for your PA 529 IP Account at the time the gift contribution is transferred. There may be potential tax consequences of gift contributions to an Account. You and the gift giver should consult your tax advisor for more information.

**g. Rollover from an out-of-state 529 plan account**

You can contribute to your PA 529 IP Account by moving funds you have in a 529 plan other than the PA 529 (a "Rollover"). The Rollover is not subject to federal or Pennsylvania tax consequences when made if the following requirements are met: (1) if the Beneficiary of the out-of-state 529 plan is the same as the Beneficiary of your PA 529 IP Account and it has been more than 12 months since any previous Rollover for that Beneficiary; and (2) your Rollover contribution to the PA 529 IP is made within 60 days of your withdrawal from the out-of-state 529 plan. If, when you make the Rollover, you are also changing the Beneficiary, there is no restriction on the number of times within a 12-month period that you can make the Rollover. Remember, however, that the new Beneficiary must be a Family Member of the old Beneficiary. Under federal law, a 529 plan Rollover that does not meet these criteria will be considered a Non-qualified Withdrawal and will be subject to adverse federal and Pennsylvania income tax consequences.

You can withdraw your funds from the out-of-state plan yourself and then contribute them to your PA 529 IP within 60 days (an "Indirect Rollover"). Or, you can request that your out-of-state plan roll your funds directly into the PA 529 IP plan (a "Direct Rollover"). Not all states permit Direct Rollovers. In addition, some states may impose state income tax consequences and/or penalties on Rollovers of either type from their 529 plans.

Whether your Rollover is Direct or Indirect, the PA 529 IP must be provided with acceptable documentation from the distributing, out-of-state 529 plan indicating how much of the Rollover money is attributable to earnings and principal. Until the PA 529 IP receives this documentation, the entire amount of your Rollover contribution will be treated as earnings, which would be subject to taxation if you took a Non-qualified Withdrawal before the earnings and principal documentation were received.

Forms for requesting a Rollover from an out-of-state 529 plan account are included with the PA 529 IP enrollment materials and are available on the PA529.com website. Also, please contact Customer Service at 1-800-440-4000 if you need assistance in making a Rollover.

Contributions made by Rollovers may not be deducted from your Pennsylvania taxable income.

**h. Reallocation of assets from a PA 529 GSP Account**

You can contribute to your PA 529 IP Account by transferring funds you have in a PA 529 GSP Account (a "Plan Transfer"). This is considered a "reallocation" of assets within the PA 529 not subject to federal or Pennsylvania taxation when made, if the Beneficiary of the PA 529 GSP Account is the same as the Beneficiary of your PA 529 IP Account and there has been no previous reallocation (including reallocation among investment options within the PA 529 IP) within the same calendar year. If, when you make the reallocation, you are also changing the Beneficiary, there is no restriction on the number of times within the calendar year that you can make the reallocation. Remember, however, that the new Beneficiary must be a Family Member of the old Beneficiary. You may not reallocate assets to a new Beneficiary if doing so would cause the Maximum Contribution Limit for the receiving Beneficiary to be exceeded.

Reallocation contributions may not be deducted from Pennsylvania taxable income.

**i. Transfer of assets between PA 529 IP Accounts**

You can contribute to your PA 529 IP Account by transferring some or all assets in a different PA 529 IP Account for a different Beneficiary ("Account Transfers") (unless you are a custodian of an Account established under UTMA or UGMA). As is the case with changing Beneficiaries, the Beneficiary of the PA 529 IP Account receiving the transferred contributions must be a Family Member of the Beneficiary of the Account from which the contributions are transferred. You may not transfer the assets if doing so would cause the Maximum Contribution Limit for the receiving Beneficiary to be exceeded. A transfer of assets between PA 529 IP Accounts must be requested in writing and signed by the Account Owner. In making the request, the Account Owner must specify the relationship between the Beneficiaries of the Accounts. If there is no existing PA 529 IP Account for the new Beneficiary, a new Enrollment Application must be completed to establish the Account and transfer the funds.

Transfer assets may not be deducted from Pennsylvania taxable income.

**j. Contribution of the proceeds from a Coverdell Education Savings Account**

You may make a contribution to your PA 529 IP Account with the proceeds obtained by selling a "Coverdell Education Savings Account" (formerly an "Education IRA") established under Section 530 of the Tax Code. The Coverdell Education Savings Account proceeds are not subject to federal taxation when sold if your sale and contribution meet the following requirements: (1) the Beneficiary of the PA 529 IP Account to which the proceeds are moved is the same as the Beneficiary of the Coverdell Education Savings Account and (2) the sale of the Coverdell Education Savings Account and the contribution to the PA 529 IP Account occur in the same tax year. After the contribution to the PA 529 IP Account has been made, all the rules governing the PA 529 IP Account apply, including those on changing the Beneficiary.

Contributions from the proceeds of a Coverdell Education Savings Account are deductible from Pennsylvania taxable income.

You must provide the PA 529 IP with acceptable documentation from the custodian for the Coverdell Education Savings Account indicating how much of the proceeds are attributable to earnings and principal. Until the PA 529 IP receives this documentation, the entire amount of your contribution will be treated as earnings, which would be subject to taxation if you took a Non-qualified Withdrawal before the earnings and principal documentation were received.

Even though contributing proceeds from a Coverdell Education Savings Account to a PA 529 IP Account may be federally non-taxable when made, it may be treated as a taxable distribution for purposes of Pennsylvania income taxes or other applicable state income taxes. Contact your tax advisor for more information about state tax treatment.

Call Customer Service at 1-800-440-4000 for more information about how to make a sale and contribute proceeds from a Coverdell Education Savings Account.

As with the growth on any contribution, if not used for Qualified Expenses, the growth on the proceeds and any subsequent growth once contributed to the PA 529 IP would be subject to federal taxation.

**k. Contribution of the proceeds from certain U.S. Savings Bonds**

You may make a contribution to your PA 529 IP Account with the proceeds obtained by cashing in certain U.S. Savings Bonds. The Savings Bonds proceeds are not subject to federal taxation when redeemed if your sale and contribution meet the following requirements: (1) the bonds are series EE bonds issued after 1989 or series I bonds; (2) the bond owner was at least 24 years old on the date the bonds were issued; (3) the Beneficiary of the PA 529 IP Account is the Savings Bonds owner, or the Savings Bonds owner's spouse or dependent, and (4) the Savings Bonds owner meets certain income restrictions. You should consult a financial or tax advisor to determine whether you qualify.

To take advantage of this opportunity, you must cash in the bonds and send a contribution to your PA 529 IP Account for the amount of the proceeds. You need to provide the PA 529 IP with acceptable documentation indicating how much of the contribution is attributable to earnings and principal, such as Form 1099-INT from the financial institution that redeemed the bonds. Until the PA 529 IP receives this documentation, the entire amount of your Rollover contribution will be treated as earnings, which would be subject to taxation if you took a Non-qualified Withdrawal before the earnings and principal documentation were received.

Additionally, the bond owner needs to record certain information from the bonds (Internal Revenue Form 8818 is available for this purpose) that must be reported to the Internal Revenue Service later. The taxpayer must file an Internal Revenue Service Form 8815 in the tax year in which the bonds are cashed in and placed in the PA 529 IP Account.

Only the principal portions of contributions from the proceeds of qualified Savings Bonds are deductible from Pennsylvania taxable income. The interest portion of the contribution is not deductible.

As with the growth on any contribution, if not used for Qualified Expenses, the growth on the proceeds and any subsequent growth once contributed to the PA 529 IP would be subject to federal taxation.

**l. Contributions from UGMA/UTMA Custodial Accounts**

The custodian for a minor under the UGMA or UTMA may liquidate the assets in the UGMA/UTMA account and contribute them to a PA 529 IP Account. However, there is no special Tax Code or Pennsylvania tax laws for doing so. Accordingly, the minor and/or the minor's parent may incur capital gains (or losses) from the sale of noncash assets held by a UGMA/UTMA account. Additionally, even when placed in the PA 529 IP, the assets are still governed by the UGMA/UTMA provision. Please contact a tax professional to determine how to transfer UGMA/UTMA custodial assets, and what the implications of such a transfer may be.

Contributions from the liquidation of a UGMA/UTMA account may be deducted from Pennsylvania taxable income.

UGMA/UTMA custodians should consider the following before contributing UGMA/UTMA assets to a PA 529 IP:

- The custodian may make withdrawals only as permitted under UGMA/UTMA regulations and the PA 529 IP;
- The custodian may not change the Beneficiary of the Account except as permitted under the UGMA/UTMA;
- The custodian should not change the Account Owner to anyone other than a successor custodian during the term of the custodial Account under the UGMA/UTMA;
- When the custodianship terminates because the Beneficiary has reached the age of majority, the Beneficiary takes control of the Account and becomes the Account Owner subject to the provisions of the PA 529 IP that are applicable to Accounts established or funded with non-UGMA/UTMA assets, if applicable; and
- Additional contributions of money not previously gifted to the Beneficiary under the UGMA/UTMA should be made to a separate and noncustodial 529 plan account. A noncustodial 529 plan account will allow the Account Owner to retain control of the assets and make Beneficiary changes.

None of the Commonwealth, the Treasury Department, the PA 529, or any other entity will be liable for any consequences related to a custodian's improper use, transfer, or characterization of custodial funds.

## C. Choosing Your Investment Options

### 1. Overview of Investment Options and Underlying Funds

#### a. Investment Option choices

The PA 529 IP offers 13 different Investment Options for your Account contributions.

- You can choose from among three Age-based Options, in which your money automatically is moved to progressively more conservative Individual Portfolios (see below) as your Beneficiary approaches college age. You can select the Age-based Option—Conservative, Moderate, or Aggressive—that best reflects your own risk tolerance.
- You can choose from among ten Individual Portfolios, including a Socially Responsible Portfolio, which offer investment choices of stock funds, bond funds, and a money market fund. If you choose an Individual Portfolio, your money will remain in that Portfolio until you instruct the PA 529 IP to move it. (See Part 2.B.3. above for limitations on how often you are permitted to move your assets.) Each Individual Portfolio has an expense ratio (annual asset-based fee) that is applied to assets in that Portfolio, which includes both administrative and investment management fees. The expense ratios vary among the Individual Portfolios and are set forth in Part 2.C.6.

PLEASE NOTE: The holding period for college investing is very short relative to that for retirement investing (i.e., 5 to 20 years versus 30 to 60 years). Also, the need for liquidity during the withdrawal phase (to pay for Qualified Expenses) generally is very important. You should seriously consider the level of risk you wish to assume, your investment time horizon, your investment objectives, and other factors important to you before you select Investment Options. You should periodically assess, and if appropriate, adjust your investment choices with the same factors in mind.

#### b. Underlying Funds

Each Individual Portfolio invests its assets in one or more Underlying Fund(s), which are mutual funds managed by Vanguard. Currently these are:

- Vanguard FTSE Social Index Fund
- Vanguard Inflation-Protected Securities Fund
- Vanguard Institutional Total Stock Market Index Fund
- Vanguard Prime Money Market Fund
- Vanguard Total Bond Market II Index Fund
- Vanguard Total International Stock Market Index Fund

Most of the Underlying Funds are index funds. Each index fund reserves the right to substitute a different index for the index it currently tracks. This could happen if the current index is discontinued, if the index fund's agreement with the sponsor of its current index is terminated, or for any other reason determined in good faith by the Underlying Fund's board of trustees. If a substitution is made, the substitute index would measure the same market segment as the current index.

Additional information about the investment strategies and risks of each Underlying Fund is available in its current prospectus and statement of additional information. You can obtain a copy of the current prospectus, the statement of additional information, or the most recent semiannual or annual report of any Underlying Fund by visiting Vanguard's website at [www.vanguard.com](http://www.vanguard.com) or by calling 1-800-440-4000.

Please keep in mind that you will not own shares of the Underlying Funds. You are purchasing units in the PA 529 IP, which invests your money in the Underlying Funds. The Department reserves the right to change, at any time, the Investment

Options, the Portfolios that make up the Age-based Options, the asset allocation of the Individual Portfolios, or the Underlying Funds in which the Portfolios invest.

**c. The Age-based Options**

PA 529 IP offers the following three Age-based Options:

- Conservative Age-based Option
- Moderate Age-based Option
- Aggressive Age-based Option

The Age-based Options are designed to take into consideration a Beneficiary's age and your investing time horizon — i.e., the number of years before the Beneficiary is expected to attend an Eligible Educational Institution. Within the Age-based Options, you may invest, according to your risk tolerance, in a Conservative, Moderate, or Aggressive asset allocation. In each of the three Age-based Options, for younger Beneficiaries, the Age-based Options will be invested in the Individual Portfolios more heavily weighted in stocks to capitalize on the longer investment horizon and to try to maximize returns. As time passes, Account assets are automatically moved to more conservative Individual Portfolios in an effort to preserve capital as the withdrawal phase approaches. There is no assurance that any Portfolio will be able to achieve its goals or that losses will not be incurred.

As the table shows, for any particular age group, the Conservative Age-based Option usually has a higher concentration of assets in bonds and short-term reserves than does the Moderate Age-based Option. The same is true for the Moderate Age-based Option compared with the Aggressive Age-based Option. Portfolios with higher allocations in bonds and short-term reserves tend to be less volatile than those with higher allocations in stocks. Less volatile Portfolios generally will not decline as far when stock markets go down, but also generally will not appreciate in value as much when stock markets go up.

For each of the Age-based Options, the PA 529 IP will automatically exchange assets from one of the Plan's Individual Portfolios (see below) to another as the Beneficiary ages. The exchange occurs during the month following the month of the Beneficiary's birth date, according to the following schedule:

**Age-based Options**

<b>Age of Beneficiary</b>	<b>Conservative</b>	<b>Moderate</b>	<b>Aggressive</b>
<b>Newborn through 5</b>	<b>Moderate Growth Portfolio</b> 45% Domestic Stocks 15% International Stocks 40% Bonds	<b>Growth Portfolio</b> 55% Domestic Stocks 25% International Stocks 20% Bonds	<b>Aggressive Growth Portfolio</b> 70% Domestic Stocks 30% International Stocks
<b>6 through 10</b>	<b>Conservative Growth Portfolio</b> 25% Domestic Stocks 10% International Stocks 65% Bonds	<b>Moderate Growth Portfolio</b> 45% Domestic Stocks 15% International Stocks 40% Bonds	<b>Growth Portfolio</b> 55% Domestic Stocks 25% International Stocks 20% Bonds
<b>11 through 15</b>	<b>Income Portfolio</b> 20% Domestic Stocks 80% Bonds	<b>Conservative Growth Portfolio</b> 25% Domestic Stocks 10% International Stocks 65% Bonds	<b>Moderate Growth Portfolio</b> 45% Domestic Stocks 15% International Stocks 40% Bonds
<b>16 through 18</b>	<b>Conservative Income Portfolio</b> 75% Bonds 25% Short-term Reserves	<b>Income Portfolio</b> 20% Domestic Stocks 80% Bonds	<b>Conservative Growth Portfolio</b> 25% Domestic Stocks 10% International Stocks 65% Bonds
<b>19 or older</b>	<b>Money Market Portfolio</b> 100% Short-term Reserves	<b>Conservative Income Portfolio</b> 75% Bonds 25% Short-term Reserves	<b>Income Portfolio</b> 20% Domestic Stocks 80% Bonds

**d. The Individual Portfolios**

Unlike the Age-based Options, the Individual Portfolios do not change asset allocations as the Beneficiary ages. Instead, the asset allocation of each Portfolio remains fixed over time. If you choose to invest in Individual Portfolios that have a significant weighting in stocks, you should consider moving your assets to more conservative Portfolios as your Beneficiary approaches college age. Please note that there are limitations on your ability to move assets from one Portfolio to another. (See Part 2.B.3.)

The Individual Portfolios consist of six Multi-fund Individual Portfolios, which invest in multiple Underlying Funds (the percentages of those investments are detailed in the table below, and four Single-fund Individual Portfolios, which invest in a single Underlying Fund.

The **Multi-fund Individual Portfolios** are:

- Aggressive Growth Portfolio
- Growth Portfolio
- Moderate Growth Portfolio
- Conservative Growth Portfolio
- Income Portfolio
- Conservative Income Portfolio

The **Single-fund Individual Portfolios** are:

- Total Stock Market Index Portfolio
- Social Index Portfolio
- Inflation-Protected Securities Portfolio
- Money Market Portfolio

Underlying Fund	Aggressive Growth Portfolio	Growth Portfolio	Moderate Growth Portfolio	Conservative Growth Portfolio	Income Portfolio	Conservative Income Portfolio
Vanguard Institutional Total Stock Market Index Fund	70%	55%	45%	25%	20%	0%
Vanguard Total International Stock Index Fund	30%	25%	15%	10%	0%	0%
<b>Total Stock</b>	<b>100%</b>	<b>80%</b>	<b>60%</b>	<b>35%</b>	<b>20%</b>	<b>0%</b>
Vanguard Total Bond Market II Index Fund	0%	20%	40%	65%	80%	50%
Vanguard Inflation-Protected Securities Fund	0%	0%	0%	0%	0%	25%
<b>Total Bond</b>	<b>0%</b>	<b>20%</b>	<b>40%</b>	<b>65%</b>	<b>80%</b>	<b>75%</b>
Vanguard Prime Money Market Fund	0%	0%	0%	0%	0%	25%
<b>Total Money Market</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>25%</b>
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

## 2. Profiles of Individual Portfolios

The profiles that follow identify the risks of each Portfolio. An explanation of these risks appears after the profiles. See Part 2.C.4.

### a. Aggressive Growth Portfolio

#### Investment Objective

The Portfolio seeks to provide capital appreciation.

#### Investment Strategy

The Portfolio invests in two Vanguard stock index funds according to a formula that results in an allocation of 100% of its assets to stocks. The percentages of the Portfolio's assets allocated to each Underlying Fund are:

Vanguard Institutional Total Stock Market Index Fund	70%
Vanguard Total International Stock Index Fund	30%

Through its ownership of the two stock funds, the Portfolio indirectly owns primarily large-capitalization U.S. stocks and, to a lesser extent, mid- and small-capitalization U.S. stocks and international stocks.

#### Investment Risks

Because it invests entirely in stock funds, the Portfolio is primarily subject to **stock market risk**. The Portfolio is also subject to low to moderate levels of **country/regional risk**, **currency risk**, **emerging markets risk**, and **investment style risk**. The Portfolio also has **low** levels of **index sampling risk** and **derivatives risk**. **An explanation of these risks appears after the profiles. See Part 2.C.4.**

**b. Growth Portfolio**

**Investment Objective**

The Portfolio seeks to provide capital appreciation and low to moderate current income.

**Investment Strategy**

The Portfolio invests in two Vanguard stock index funds and one Vanguard bond index fund, resulting in an allocation of 80% of assets to stocks and 20% to investment-grade U.S. bonds. The percentages of the Portfolio's assets allocated to each Underlying Fund are:

Vanguard Institutional Total Stock Market Index Fund	55%
Vanguard Total International Stock Index Fund	25%
Vanguard Total Bond Market II Index Fund	20%

Through its ownership of the two stock funds, the Portfolio indirectly owns primarily large-capitalization U.S. stocks and, to a lesser extent, mid- and small-capitalization U.S. stocks and international stocks. Through its ownership of the bond fund, the Portfolio also indirectly holds a mix of bonds—including government, corporate, and international dollar-denominated bonds, as well as mortgage-backed and asset-backed securities—that represents a wide spectrum of public, investment-grade, taxable, fixed income securities in the United States, all with maturities of more than 1 year. The bond fund maintains a dollar-weighted average maturity consistent with that of the Barclays Capital U.S. Aggregate Float Adjusted Index, which currently ranges between 5 and 10 years.

**Investment Risks**

Because it invests mainly in stock funds, the Portfolio is primarily subject to **stock market risk**. The Portfolio has **low** to **moderate** levels of **country/regional risk**, **currency risk**, **emerging markets risk**, **interest rate risk**, **credit risk**, **income risk**, and **call/prepayment risk**. The Portfolio also has **low** levels of **index sampling risk** and **derivatives risk**. **An explanation of these risks appears after the profiles. See Part 2.C.4.**

**c. Moderate Growth Portfolio**

**Investment Objective**

The Portfolio seeks to provide capital appreciation and current income.

**Investment Strategy**

The Portfolio invests in two Vanguard stock index funds and one Vanguard bond index fund, resulting in an allocation of 60% of assets to stocks and 40% to investment-grade U.S. bonds. The percentages of the Portfolio's assets allocated to each Underlying Fund are:

Vanguard Institutional Total Stock Market Index Fund	45%
Vanguard Total International Stock Index Fund	15%
Vanguard Total Bond Market II Index Fund	40%

Through its ownership of the two stock funds, the Portfolio indirectly owns primarily large-capitalization U.S. stocks and, to a lesser extent, mid- and small-capitalization U.S. stocks and international stocks. Through its ownership of the bond fund, the Portfolio also indirectly holds a mix of bonds—including government, corporate, and international dollar-denominated bonds, as well as mortgage-backed and asset-backed securities—that represents a wide spectrum of public, investment-grade, taxable, fixed income securities in the United States, all with maturities of more than 1 year. The bond fund maintains a dollar-weighted average maturity consistent with that of the Barclays Capital U.S. Aggregate Float Adjusted Index, which currently ranges between 5 and 10 years.

**Investment Risks**

Through its stock fund holdings, the Portfolio is subject to **stock market risk**. Through its bond fund holding, the Portfolio has **moderate** levels of **interest rate risk**, **credit risk**, **income risk**, and **call/prepayment risk**. The Portfolio also has **low** levels of **country/regional risk**, **currency risk**, **emerging markets risk**, **index sampling risk**, and **derivatives risk**. **An explanation of these risks appears after the profiles. See Part 2.C.4.**

**d. Conservative Growth Portfolio**

**Investment Objective**

The Portfolio seeks to provide current income and low to moderate capital appreciation.

**Investment Strategy**

The Portfolio invests in two Vanguard stock index funds and one Vanguard bond index fund, resulting in an allocation of 35% of assets to stocks and 65% to investment-grade U.S. bonds. The percentages of the Portfolio's assets allocated to each Underlying Fund are:

Vanguard Institutional Total Stock Market Index Fund	25%
Vanguard Total International Stock Market Index Fund	10%
Vanguard Total Bond Market II Index Fund	65%

Through its ownership of the bond fund, the Portfolio indirectly holds a mix of bonds—including government, corporate, and international dollar-denominated bonds, as well as mortgage-backed and asset-backed securities—that represents a wide spectrum of public, investment-grade, taxable, fixed income securities in the United States, all with maturities of more than 1 year. The bond fund maintains a dollar-weighted average maturity consistent with that of the Barclays Capital U.S. Aggregate Float Adjusted Index, which currently ranges between 5 and 10 years. Through its ownership of the two stock funds, the Portfolio indirectly owns large-capitalization U.S. stocks and, to a lesser extent, mid- and small-capitalization U.S. stocks and international stocks.

**Investment Risks**

Because it invests mainly in a bond fund, the Portfolio is primarily subject to **low to moderate** levels of **interest rate risk, credit risk, income risk, and call/prepayment risk**. Through its stock fund holdings, the Portfolio has a moderate level of **stock market risk**. The Portfolio also has **low** levels of **country/regional risk, currency risk, emerging markets risk, index sampling risk, and derivatives risk**. **An explanation of these risks appears after the profiles. See Part 2.C.4.**

**e. Income Portfolio**

**Investment Objective**

The Portfolio seeks to provide current income.

**Investment Strategy**

The Portfolio invests in one Vanguard bond index fund and one Vanguard stock index fund, resulting in an allocation of 80% of assets to investment-grade U.S. bonds and 20% of assets to stocks. The percentages of the Portfolio's assets allocated to each Underlying Fund are:

Vanguard Total Bond Market II Index Fund	80%
Vanguard Institutional Total Stock Market Index Fund	20%

Through its ownership of the bond fund, the Portfolio indirectly holds a mix of bonds—including government, corporate, and international dollar-denominated bonds, as well as mortgage-backed and asset-backed securities—that represents a wide spectrum of public, investment-grade, taxable, fixed income securities in the United States, all with maturities of more than 1 year. The bond fund maintains a dollar-weighted average maturity consistent with that of the Barclays Capital U.S. Aggregate Float Adjusted Index, which currently ranges between 5 and 10 years. Through its ownership of the stock fund, the Portfolio also indirectly owns large-capitalization U.S. stocks and, to a lesser extent, mid- and small-capitalization U.S. stocks.

**Investment Risks**

Because it invests mainly in a bond fund, the Portfolio primarily is subject to low to moderate levels of **interest rate risk, credit risk, income risk, and call/prepayment risk**. Through its stock fund holding, the Portfolio is subject to a low to moderate level of **stock market risk**. The Portfolio has low levels of **index sampling risk and derivatives risk**. **An explanation of these risks appears after the profiles. See Part 2.C.4.**

f. **Conservative Income Portfolio**

**Investment Objective**

The Portfolio seeks to provide current income and some inflation protection as well as income consistent with the preservation of principal.

**Investment Strategy**

The Portfolio invests in two Vanguard bond funds and one Vanguard money market fund, resulting in an allocation of 75% of assets to investment-grade U.S. bonds and 25% of assets to short-term investments. The percentages of the Portfolio's assets allocated to each Underlying Fund are:

Vanguard Total Bond Market II Index Fund	50%
Vanguard Inflation-Protected Securities Fund	25%
Vanguard Prime Money Market Fund	25%

Through its ownership of Vanguard Total Bond Market II Index Fund, the Portfolio indirectly holds a mix of bonds—including government, corporate, and international dollar-denominated bonds, as well as mortgage-backed and asset-backed securities—that represents a wide spectrum of public, investment-grade, taxable, fixed income securities in the United States, all with maturities of more than 1 year. The Fund maintains a dollar-weighted average maturity consistent with that of the Barclays Capital U.S. Aggregate Float Adjusted Index, which currently ranges between 5 and 10 years.

Through its ownership of Vanguard Inflation-Protected Securities Fund, the Portfolio indirectly owns investment-grade, inflation-indexed bonds issued by the U.S. government, its agencies and instrumentalities, and corporations. The Fund may invest in bonds of any maturity; however, its dollar-weighted average maturity is expected to be in the range of 7 to 20 years.

Through its ownership of Vanguard Prime Money Market Fund, the Portfolio indirectly holds high-quality, short-term money market instruments, including certificates of deposit, banker's acceptances, commercial paper, and other money market securities. The Underlying Fund maintains a dollar-weighted average maturity of 60 days or less and a dollar-weighted average life of 120 days or less. See "Note" in the Money Market Portfolio description.

**Investment Risks**

Because it invests mainly in bond funds, the Portfolio primarily is subject to a moderate level of **income fluctuation risk**. The Portfolio also has low to moderate levels of **interest rate risk**, **credit risk**, **income risk**, and **call/prepayment risk**. The Portfolio also has low levels of **manager risk**, **index sampling risk**, **industry concentration risk**, and **derivatives risk**. **An explanation of these risks appears after the profiles. See Part 2.C.4.**

g. **Money Market Portfolio**

**Investment Objective**

The Portfolio seeks income consistent with the preservation of principal.

**Investment Strategy**

The Portfolio invests 100% of its assets in Vanguard Prime Money Market Fund, which invests primarily in high-quality, short-term money market instruments, including certificates of deposit, banker's acceptances, commercial paper, and other money market securities. To be considered high-quality, a security generally must be rated in one of the two highest credit-quality categories for short-term securities by at least two nationally recognized rating services (or by one, if only one rating service has rated the security). If unrated, the security must be determined by Vanguard to be of quality equivalent to securities in the two highest credit-quality categories. The Fund invests more than 25% of its assets in securities issued by companies in the financial services industry. The Fund maintains a dollar-weighted average maturity of 60 days or less and a dollar-weighted average life of 120 days or less.

**Investment Risks**

The Portfolio primarily is subject to **income risk**. It also has low levels of **credit risk**, **manager risk**, **industry concentration risk**, and **derivatives risk**. **An explanation of these risks appears after the profiles. See Part 2.C.4.**

**Note:** The Conservative Income Portfolio's and Money Market Portfolio's investments in Vanguard Prime Money Market Fund are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the Prime Money Market Fund seeks to preserve the value of the investment at \$1 per share, it is possible that the Portfolios may lose money by investing in the Fund.

**h. Total Stock Market Index Portfolio**

**Investment Objective**

The Portfolio seeks to track the performance of a benchmark index that measures the investment return of the overall stock market.

**Investment Strategy**

The Portfolio invests 100% of its assets in Vanguard Institutional Total Stock Market Index Fund, which employs a "passive management"—or indexing—investment approach designed to track the performance of the Morgan Stanley Capital International (MSCI) US Broad Market Index. The Index represents 99.5% or more of the total market capitalization of all the U.S. common stocks regularly traded on the New York Stock Exchange and the NASDAQ over-the-counter market. The Fund typically holds 1,200 to 1,300 stocks in its target index (covering nearly 95% of the Index's total market capitalization) and a representative sample of the remaining stocks. The Fund holds a broadly diversified collection of securities that, in the aggregate, approximates the full Index in terms of key characteristics. These key characteristics include industry weightings and market capitalization, as well as certain financial measures, such as price/earnings ratio and dividend yield.

**Investment Risks**

The Portfolio primarily is subject to **stock market risk**. The Portfolio also has low levels of **index sampling risk** and **derivatives risk**. **An explanation of these risks appears after the profiles. See Part 2.C.4.**

**i. Inflation-Protected Securities Portfolio**

**Investment Objective**

The Portfolio seeks to provide inflation protection and income consistent with investment in inflation-indexed securities.

**Investment Strategy**

The Portfolio invests 100% of its assets in Vanguard Inflation-Protected Securities Fund, which invests at least 80% of its assets in inflation-indexed bonds issued by the U.S. government, its agencies and instrumentalities, and corporations. The Fund may invest in bonds of any maturity; however, its dollar-weighted average maturity is expected to be in the range of 7 to 20 years. At a minimum, all bonds purchased by the Fund will be rated "investment-grade." However, unlike conventional bonds, which make regular fixed interest payments and repay the face value of the bonds at maturity, an Inflation-Indexed Security (IIS) provides principal and interest payments that are adjusted over time to reflect a rise (inflation) or a drop (deflation) in the general price level for goods and services. In the event of deflation, the U.S. Treasury has guaranteed that it will repay at least the face value of an IIS issued by the U.S. government.

**Note:** The Inflation-Protected Securities Portfolio seeks to provide protection from inflation as measured by the Consumer Price Index. It is possible that the costs of higher education may increase at a rate that exceeds the rate of increase of the Consumer Price Index. There is no guarantee that the Portfolio will protect investors from the rising costs of higher education.

**Investment Risks**

The Portfolio is subject to a **high** level of **income fluctuation risk**. The Portfolio is also subject to a low to moderate level of **interest rate risk**, and **manager risk**, and a **low** level of **derivatives risk**. **An explanation of these risks appears after the profiles. See Part 2.C.4.**

**j. Social Index Portfolio**

**Investment Objective**

The Portfolio seeks to track the performance of a benchmark index that measures the investment return of large- and mid-capitalization stocks.

**Investment Strategy**

The Portfolio invests 100% of its assets in Vanguard FTSE Social Index Fund. The Fund employs a "passive management"—or indexing—investment approach designed to track the performance of the FTSE4Good US Select Index. The Index is composed primarily of large- and mid-cap stocks that have been screened for certain social and environmental criteria by the Index sponsor, which is independent of Vanguard. FTSE selects stocks from

approximately 700 of the largest public companies in the United States by evaluating each company's performance in the following categories: environmental sustainability, upholding and supporting universal human rights, and developing positive relations with stakeholders. The FTSE Index includes companies considered to have (1) superior environmental policies, (2) a strong hiring and promotion record for minorities and women, and (3) a safe and healthy workplace. Excluded from the Index are companies that are involved with (1) tobacco, (2) alcohol, (3) adult entertainment, (4) firearms, (5) gambling, (6) nuclear power, or (7) that violate fair labor practices and equal opportunity standards. The Fund attempts to replicate the Index by investing all, or substantially all, of its assets in the stocks that make up the Index.

#### **Investment Risks**

Through its stock fund holdings, the Portfolio is primarily subject to **stock market risk** and **investment style risk**. The Portfolio also has a low level of **derivatives risk**. **An explanation of these risks appears after the profiles. See Part 2.C.4.**

### **3. Profiles of Underlying Funds not offered as Individual Portfolios**

Of the six Underlying Funds, four (Vanguard FTSE Social Index Fund, Vanguard Inflation-Protected Securities Fund, Vanguard Institutional Total Stock Market Index, and Vanguard Prime Money Market Fund) are available as Single-fund Individual Portfolios. Those four are described above. The remaining two Underlying Funds (Vanguard Total Bond Market II Index Fund and Vanguard Total International Stock Market Index Fund) are not available as Individual Portfolios. To provide more information about these two Funds, their profiles, including investment strategies and risks, are presented below.

#### **a. Vanguard Total International Stock Index Fund**

##### **Investment Objective**

The Fund seeks to track the performance of a benchmark index that measures the investment return of stocks issued by companies located in developed and emerging markets, excluding the United States.

##### **Investment Strategy**

The Vanguard Total International Stock Index Fund employs a "passive management"—or indexing—investment approach designed to track the performance of the MSCI® All Country World Index ex USA Investable Market Index (MSCI ACWI ex USA IMI Index), a free-float-adjusted market capitalization index designed to measure equity market performance of companies located in developed and emerging markets, excluding the United States. The Index includes more than 6,400 stocks of companies located in 44 countries. The Fund invests all, or substantially all, of its assets in the common stocks included in its target index.

##### **Investment Risks**

The Fund is primarily subject to **stock market risk**, **investment style risk**, **country/regional risk**, **currency risk**, and **emerging markets risk**. The Portfolio has a **low** level of **derivatives risk**. **An explanation of these risks appears after the profiles. See Part 2.C.4.**

#### **b. Vanguard Total Bond Market II Index Fund**

##### **Investment Objective**

The Fund seeks to track the performance of a broad, market-weighted bond index.

##### **Investment Strategy**

The Vanguard Total Bond Market II Index Fund employs a "passive management"—or indexing—investment approach designed to track the performance of the Barclays Capital U.S. Aggregate Float Adjusted Index. This Index measures a wide spectrum of public, investment-grade, taxable, fixed income securities in the United States—including government, corporate, and international dollar-denominated bonds, as well as mortgage-backed and asset-backed securities—all with maturities of more than 1 year. The Fund invests by sampling the Index, meaning that it holds a broadly diversified collection of securities that, in the aggregate, approximates the full Index in terms of key risk factors and other characteristics. All of the Fund's investments will be selected through the sampling process, and at least 80% of the Fund's assets will be invested in bonds held in the Index. The Fund maintains a dollar-weighted average maturity consistent with that of the Barclays Capital U.S. Aggregate Float Adjusted Index, which currently ranges between 5 and 10 years.

##### **Investment Risks**

The Fund primarily is subject to moderate levels of **interest rate risk**, **income risk**, and **call/prepayment risk**, and low levels of **credit risk**, **index sampling risk**, and **derivatives risk**. **An explanation of these risks appears after the profiles. See Part 2.C.4.**

## **4. Explanation of the Risk Factors of the Portfolios**

### **a. Call/Prepayment Risk**

This is the risk that during periods of falling interest rates, issuers of callable bonds may call (redeem) securities with higher coupons or interest rates before their maturity dates. The Underlying Fund would lose any price appreciation above the bond's call price and would be forced to reinvest the unanticipated proceeds at lower interest rates, resulting in a decline in the Underlying Fund's income. For mortgage-backed securities, this risk is known as prepayment risk.

### **b. Country/Regional Risk**

Underlying Funds that invest in foreign securities are subject to country/regional risk, which is the chance that world events—such as political upheaval, financial troubles, or natural disasters—will adversely affect the value of securities issued by companies in foreign countries or regions.

### **c. Credit Risk**

This is the risk that an issuer of a bond owned by an Underlying Fund will fail to pay principal or interest in a timely manner, or that negative perceptions of the issuer's ability to make such payments will cause the price of that bond to decline.

### **d. Currency Risk**

Underlying Funds that invest in foreign securities are subject to currency risk, which is the chance that the value of a foreign investment, measured in U.S. dollars, will decrease because of unfavorable changes in currency exchange rates.

### **e. Derivatives Risk**

Each of the Underlying Funds may invest, to a limited extent, in derivatives. Generally speaking, a derivative is a financial contract whose value is based on the value of a financial asset (such as a stock, bond, or currency), a physical asset (such as gold, oil, or wheat), or a market index (such as the S&P 500 Index). Investments in derivatives may subject the Fund to risks different from, and possibly greater than, those of the underlying securities, assets, or market indexes. The Underlying Funds will not use derivatives for speculation or for the purpose of leveraging (magnifying) investment returns.

### **f. Emerging Markets Risk**

Underlying Funds that invest in foreign securities may also be subject to emerging markets risk, which is the chance that the stocks of companies located in emerging markets will be substantially more volatile, and substantially less liquid, than the stocks of companies located in more developed foreign markets.

### **g. Income Fluctuation Risk**

This is the risk that an Underlying Fund's quarterly income distributions are likely to fluctuate considerably more than the income distributions of a typical bond fund. For the Vanguard Inflation-Protected Securities Fund, income fluctuations associated with changes in interest rates are expected to be low; however, income fluctuations associated with changes in inflation rates are expected to be high.

### **h. Income Risk**

This is the risk that falling interest rates will cause an Underlying Fund's income to decline. Income risk is generally higher for short-term bond funds, moderate for intermediate-term bond funds, and lower for long-term bond funds.

### **i. Index Sampling Risk**

This is the risk that the securities selected for an Underlying Fund using the sampling method of indexing in the aggregate will not provide investment performance matching that of the target index.

### **j. Industry Concentration Risk**

This is the risk that there will be overall problems affecting a particular industry in which an Underlying Fund invests more than 25% of its assets. Because of indirect investments in Vanguard Prime Money Market Fund, which invests more than 25% of its assets in securities of companies in the financial services industry, Portfolio performance will depend to a greater extent on the overall condition of that industry.

### **k. Interest Rate Risk**

This is the risk that bond prices overall will decline because of rising interest rates. Interest rate risk should be higher for long-term bond funds, moderate for intermediate-term bond funds, and lower for short-term bond funds.

### **l. Investment Style Risk**

This is the chance that returns from the types of stocks in which an Underlying Fund invests will trail returns from the overall stock market or will be more volatile than the overall stock market. Historically, small- and mid-cap stocks have been more volatile in price than the large-cap stocks that dominate the overall market, and often perform quite differently.

**m. Manager Risk**

This is the risk that poor security selection will cause an Underlying Fund to underperform relevant benchmarks or other funds with a similar investment objective.

**n. Stock Market Risk**

This is the risk that stock prices overall will decline. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices.

**5. Individual Portfolio Performance**

The following table shows the investment performance of the Individual Portfolios since inception. The performance data is net of fees; that is, the returns have already been reduced by the amount of the annual asset-based fee for each Portfolio. The performance data shown represents past performance, which is not a guarantee of future results. Investment returns and principal value will fluctuate, so investors' Portfolio Units, when sold, may be worth more or less than their original cost. For performance data current to the most recent month-end, which may be higher or lower than that cited, visit our website at [www.PA529.com](http://www.PA529.com).

The performance of the Individual Portfolios will differ from the performance of the Underlying Funds. Because the Portfolios have higher expenses than the Underlying Funds, over comparable periods of time, all other things being equal, a Portfolio would have lower performance than its comparable Underlying Fund. (Of course, the Underlying Funds do not offer the same tax advantages as the Portfolios.) Performance differences also are caused by differences in the trade dates of Portfolio purchases. When you invest money in a Portfolio, you will receive Portfolio Units as of the trade date noted in **Part 2.E**. The Portfolio will use your money to purchase shares of an Underlying Fund. However, the trade date for the Portfolio's purchase of Underlying Fund shares typically will be one business day after the trade date for your purchase of Portfolio Units. Depending on the amount of cash flow into or out of the Portfolio and whether the Underlying Fund is going up or down in value, this timing difference will cause the Portfolio's performance either to trail or exceed the Underlying Fund's performance.

If you are invested in an Age-based Option, the assets in the Portfolio in which you are currently invested ("Current Portfolio") will automatically transfer to other Portfolios as the Beneficiary ages and depending upon the Option you chose. Accordingly, your assets in your Current Portfolio may not have been invested in the Current Portfolio for all or a portion of the period reported in the performance table shown below. Thus, your personal performance may be different than the performance for a Portfolio as shown below.

Portfolio	Average Annual Returns as of 12/31/2011				
	1 year	3 year	5 year	Since Inception	Inception Date
Aggressive Growth Portfolio	-1.80%	13.69%	-0.72%	-0.33%	11/17/2006
Total Stock Market Index Portfolio	0.70%	14.51%	-0.18%	0.18%	11/17/2006
Social Index Portfolio	-1.04%	14.88%	-3.30%	-3.01%	11/17/2006
Growth Portfolio	0.66%	12.76%	1.02%	1.29%	11/17/2006
Moderate Growth Portfolio	2.86%	11.48%	2.61%	2.77%	11/17/2006
Conservative Growth Portfolio	5.15%	10.10%	4.00%	4.03%	11/17/2006
Income Portfolio	6.20%	8.18%	5.06%	5.02%	11/17/2006
Conservative Income Portfolio	6.68%	5.39%	5.03%	4.89%	11/17/2006
Inflation-Protected Securities Portfolio	12.87%	9.63%	7.17%	6.70%	11/17/2006
Money Market Portfolio	0.00%	0.09%	1.43%	1.51%	11/17/2006

## 6. Fees and Expenses

The Department, in its sole discretion, will establish, and may change at any time, the fees and charges it deems appropriate for the PA 529 IP. In the future, the PA 529 IP's fees and charges could be higher or lower than those discussed in this Disclosure Statement.

### a. Expense Ratio (Asset-based Fee)

The PA 529 IP charges an expense ratio (total annual asset-based fee) for each Individual Portfolio, which ranges from 0.48% to 0.62%, depending on the expense of the Underlying Funds that make up the Individual Portfolio (the "Underlying Fund Expenses"). The Underlying Fund Expenses are received by Vanguard and include the expense ratio of the Vanguard mutual funds used in each Individual Portfolio. The Underlying Fund Expenses included in the chart below reflect expenses as of the date of this Disclosure Statement, but may change in the future. If a change in an Underlying Fund Expense occurs, a change in the expense ratio of the Individual Portfolio might also change, depending on factors that include but are not limited to the amount of the change and the portion of the Underlying Fund contained in the Individual Portfolio. In addition to the Underlying Fund Expenses, the expense ratio of an Individual Portfolio includes a State Fee and an Operational Support Fee. The State Fee, which ranges from 0.08% to 0.10%, is received by the Treasury Department for expenses related to the PA 529 IP, including administration, distribution, and marketing. The Operational Support Fee of 0.36% is allocated between Upromise and Vanguard, and covers additional administrative and operational costs. The total annual asset-based fee is charged daily against the assets of each Portfolio at an annualized rate approximately equal to the expense ratio.

The chart below is also intended to help you compare the cost of investing in the Individual Portfolios over different time periods. It illustrates the hypothetical expenses that you would incur over various periods if you invest \$10,000 in a Portfolio. This example assumes that a Portfolio provides a return of 5% a year and that the Portfolio's expense ratio (total annual asset-based fee) remains the same. The results apply whether or not the investment is redeemed at the end of the period, but they do not take into consideration any withdrawals that are Non-qualified or otherwise subject to state or federal income taxes, or any penalties.

	Underlying Fund Expense*	State Fee	Operational Support Fee	Total Annual Asset-Based Fee	Approximate cost of a \$10,000 investment assuming a 5% return			
					1 year	3 years	5 years	10 years
<b>Aggressive Growth Portfolio</b>	0.05%	0.08%	0.36%	0.49%	\$51.13	\$160.38	\$279.69	\$628.23
<b>Growth Portfolio</b>	0.06%	0.09%	0.36%	0.51%	\$52.14	\$163.56	\$285.21	\$640.47
<b>Moderate Growth Portfolio</b>	0.06%	0.09%	0.36%	0.51%	\$52.14	\$163.56	\$285.21	\$640.47
<b>Conservative Growth Portfolio</b>	0.06%	0.08%	0.36%	0.50%	\$52.14	\$163.56	\$285.21	\$640.47
<b>Income Portfolio</b>	0.06%	0.10%	0.36%	0.52%	\$53.16	\$166.75	\$290.73	\$652.69
<b>Conservative Income Portfolio</b>	0.08%	0.10%	0.36%	0.54%	\$55.20	\$173.11	\$301.76	\$677.10
<b>Money Market Portfolio</b>	0.09%	0.10%	0.36%	0.55%	\$56.22	\$176.29	\$307.28	\$689.28
<b>Total Stock Market Index Portfolio</b>	0.02%	0.10%	0.36%	0.48%	\$49.08	\$154.01	\$268.64	\$603.73
<b>Inflation-Protected Securities Portfolio</b>	0.07%	0.10%	0.36%	0.53%	\$54.18	\$169.93	\$296.25	\$664.90
<b>Social Index Portfolio</b>	0.16%	0.10%	0.36%	0.62%	\$63.36	\$198.52	\$345.78	\$774.22

\*The Underlying Fund expenses include investment advisory fees, and administrative and other expenses, which are paid to Vanguard and are net of any "Acquired Fund Fees and Expenses" otherwise applicable to each Vanguard fund.

### b. Other Charges

The PA 529 IP reserves the right to charge an Account in any circumstance in which the PA 529 IP incurs expenses on behalf of the Account (e.g., when a check, Automatic Investment Plan (AIP) payment, or Electronic Bank Transfer (EBT) is returned unpaid by the financial institution upon which it is drawn).

The PA 529 IP may deduct the fees and charges identified in this paragraph directly from your Account. If you request delivery of withdrawal proceeds or any other item by express delivery service, the PA 529 IP may charge you for this service.

<b>Transaction</b>	<b>Fee Amount*</b>
Returned Check	\$30
Rejected AIP Payment	\$30
Rejected EBT	\$30
Overnight Delivery	\$15 weekday \$25 Saturday
Outgoing Wires	\$5
Reissue of Disbursement Checks	\$15
Request for Historical Statement	\$10 per yearly statement \$30 maximum per household per year

## **D. Making Withdrawals**

### **1. In General**

An Account Owner, Level 3 or 4 Authorized Agent, or UGMA or UTMA custodian may request a withdrawal at any time for any reason. However, there are several different types of withdrawals, which are determined by the purpose and/or reason for the withdrawal. These are as follows:

- “Qualified Withdrawals” – withdrawals taken to pay for Qualified Expenses.
- “Account Transfers” – withdrawals taken to be placed in a different PA 529 IP Account.
- “Plan Transfers” – withdrawals taken to be placed in a PA 529 GSP Account.
- “Rollovers” – withdrawals taken to be placed in a non-Pennsylvania 529 plan.
- “Specific Non-qualified Withdrawals” – withdrawals taken because the Beneficiary has died, become disabled, or received a scholarship, tuition waiver, or appointment to a U.S. military academy.
- “General Non-qualified Withdrawals” – withdrawals taken for any purpose or reason other than those listed above.

The method of requesting the withdrawal, necessary forms, needed documentation, permissible payees, limitations, and the federal and Pennsylvania state tax consequences depend on which type of withdrawal is being taken.

There must be a minimum of seven business days from the time a contribution by check is received until that contribution can be withdrawn. For contributions by AIP or EBT the holding period is five business days. Additionally, a withdrawal to an Account Owner or Beneficiary will not be processed within 15 calendar days after a change of the Account Owner’s or Beneficiary’s (whichever is the payee) address of record on the Account.

Please allow up to ten business days to receive your distribution. If you make your request by mail, you must submit the appropriate form and provide such other information as the PA 529 IP may require. If the request is in good order, it typically will be processed and payment initiated within three business days after the trade date (the trade date is determined in accordance with the policies described in **Pricing of Portfolio Units** in this section). During periods of high withdrawal activity and at year-end, withdrawal requests may take up to five business days to process.

### **2. Qualified Withdrawals**

#### **a. How to request**

To make a Qualified Withdrawal, you must make your request online, by telephone, or by mail. The PA 529 IP reserves the right to require documentation showing that the withdrawal is for Qualified Expenses.

#### **b. Tax consequences**

When withdrawn and used for Qualified Expenses, the earnings on contributions to your PA 529 IP are exempt from both federal and Pennsylvania state income tax. Nevertheless, the PA 529 IP is required by federal law to issue an IRS Form 1099-Q for the withdrawal. The 1099-Q specifies the principal and earnings breakdown of the withdrawal amount. If the withdrawal was paid to the school or the Beneficiary, or was from an Account that is designated as an UGMA or UTMA Account, the 1099-Q will be issued to the Beneficiary; otherwise, it will be issued to the Account Owner. You and/or your Beneficiary should keep appropriate records to substantiate to the Internal Revenue Service and/or the Pennsylvania Department of Revenue that the withdrawal was used for Qualified Expenses.

Additionally, the federal tax consequences of the Account Owner or Beneficiary receiving a refund from the school of payments made with your Account are uncertain. Such a refund might be treated as a Non-qualified Withdrawal. The PA 529

IP reserves the right to require, at the end of the year in which such Qualified Withdrawal is made and at the end of the following year, the Beneficiary or the Account Owner to provide the PA 529 IP with a signed statement identifying the amount of any refund received whose payment was made from the Account.

### **3. Transfers between PA 529 IP Accounts – Account Transfer**

#### **a. How to request**

You may withdraw assets from one of your PA 529 IP Accounts and transfer them to another PA 529 IP Account for a different Beneficiary (“Account Transfer”). However, the Beneficiary of the Account from which the assets are being withdrawn must be a Family Member of the Beneficiary of the Account to which they are going. If you are the Owner of the receiving Account, your request must be in writing signed by you. If someone else is the Owner of the receiving Account, the procedures for changing Account ownership must be followed and the request must specify the relationship between the Beneficiaries of both Accounts.

#### **b. Tax consequences**

An Account Transfer is not a taxable event for federal or Pennsylvania income tax purposes, and the PA 529 IP does not issue an IRS 1099-Q for this type of withdrawal. However, for federal gift and generation-skipping transfer tax purposes, the transfer might be considered a gift from one Beneficiary to the other. Before making such a transfer, you may wish to consult with a tax advisor.

### **4. Transfer from a PA 529 IP Account to a PA 529 GSP Account – Plan Transfer**

#### **a. How to request**

You may withdraw assets from your PA 529 IP Account and transfer them to your PA 529 GSP (“Plan Transfer”). If the Beneficiary of the PA 529 IP and the PA 529 GSP are the same, you may make a Plan Transfer only once in a calendar year (and any other PA 529 IP asset changes for the same Beneficiary must be made at the same time). If the Beneficiaries are different, there is no limit on how many Transfers may be made. However, the Beneficiary of the PA 529 GSP must be a Family Member of the Beneficiary of the PA 529 IP. Your request must be in writing signed by you and, if the Beneficiaries are different, it must include their relationship.

#### **b. Tax consequences**

If a Plan Transfer is made once per calendar year or when the Beneficiary is changed, it is not a taxable event for federal or Pennsylvania income tax purposes and an IRS Form 1099-Q is not issued. However, if the Beneficiary is different, it might be considered a gift from one Beneficiary to the other for federal gift and generation-skipping transfer tax purposes. Before making such a transfer, you may wish to consult with a tax advisor.

### **5. Rollovers from a PA 529 IP Account**

#### **a. How to request**

You may withdraw assets from your PA 529 IP in order to place them in a non-Pennsylvania 529 account (“Rollover”). If the Beneficiary of the PA 529 IP and the non-Pennsylvania plan are the same, you may make a Rollover only once in a 12-month period. If the Beneficiaries are different, there is no limit on how many Rollovers may be made. However, the Beneficiary of the non-Pennsylvania plan must be a Family Member of the Beneficiary of the PA 529 IP.

There are two ways to make a Rollover. One is to obtain a form from the 529 plan that will receive the funds, on which that plan indicates that you have an Account there and wish the PA 529 IP to forward your funds to them. Your non-Pennsylvania 529 plan will send that form to the PA 529 IP and, once the form is received, the PA 529 IP will send the funds directly to the non-Pennsylvania plan (called a “Direct Rollover”). When the PA 529 IP sends your funds to the receiving plan, it will include notification of the principal and earnings portions of the total amount. The payee will be the receiving plan “for the benefit of” you or your Beneficiary. The second method of making a Rollover is simply to complete a Withdrawal Request Form, request an Indirect Rollover, and once you receive the funds, contribute them to the non-Pennsylvania plan within 60 days of the withdrawal. If you use this method, you will be the payee. Unless you provide the receiving plan with documentation of the principal and earnings breakdown, that plan will treat the entire Rollover amount as earnings, which would be subject to taxation if you took a Non-qualified Withdrawal from that plan.

#### **b. Tax consequences**

If a Rollover is made once in a 12-month period or when the Beneficiary is changed, it is not a taxable event for federal or Pennsylvania income tax purposes. Nevertheless, the PA 529 IP is required by federal law to issue you an IRS Form 1099-Q for the withdrawal. The 1099-Q specifies the principal and earnings breakdown of the withdrawal amount. You should keep appropriate records to substantiate to the Internal Revenue Service and/or the Pennsylvania Department of Revenue that the above requirements were met. Additionally, if the Beneficiary is different, it might be considered a gift from one Beneficiary to the other for federal gift and generation-skipping transfer tax purposes. Before making such a Rollover, you may wish to consult with a tax advisor.

## 6. Specific Non-qualified Withdrawals

### a. How to request

A request for a withdrawal because your Beneficiary has died, become disabled, received a scholarship to an Eligible Educational Institution, or an appointment to a U.S. military academy can be made by submitting a signed letter indicating the reason for the withdrawal:

- Death: a death certificate or similar document;
- Disability: a written document signed by a medical professional that indicates the Beneficiary is unable to engage in any substantial activity because of a medically determinable physical or mental impairment that can be expected to result in death or to be of long-continued and indefinite duration;
- Scholarship or tuition waiver: documentation from the awarding entity indicating the amount of the scholarship and the academic period for which it is awarded; or
- An appointment to a U.S. military academy: the letter of appointment and an indication of your Beneficiary's acceptance.

A withdrawal because of the Beneficiary's death will be issued to the estate of the Beneficiary. Other Specific Non-qualified Withdrawals may be made to you, the Account Owner, or to the Beneficiary.

### b. Tax consequences

For Specific Non-qualified Withdrawals, the earnings portion of the withdrawal will be subject to federal income taxes at the ordinary income tax rate of the payee of the Specific Non-qualified Withdrawal or, in the case of the Beneficiary's death, the estate. The PA 529 IP will issue to the payee an IRS Form 1099-Q for the withdrawal that will specify the principal and earnings portions of the total withdrawal. If you or the estate is a Pennsylvania taxpayer, the entire withdrawal, including both principal and earnings, might be subject to Pennsylvania income tax. The rules governing this are explained in the Pennsylvania Department of Revenue's Personal Income Tax Bulletin 2006-04, which is available at PA529.com by clicking on the "Resources" link and then "Personal Income Tax Bulletin 2006-04." You may wish to consult a tax advisor on this matter.

You should keep appropriate records to substantiate to the Internal Revenue Service that the withdrawal was because of the Beneficiary's death, disability, or receipt of a scholarship, tuition waiver, or appointment to a U.S. military academy.

## 7. General Non-qualified Withdrawals

### a. How to request

A request for a withdrawal other than for the purposes or reasons discussed in 1-6 above can be made by submitting a Withdrawal Request Form, by calling the PA 529 call center, or online at [www.PA529.com](http://www.PA529.com). The withdrawal will be payable to you, the Account Owner, or to the Beneficiary.

### b. Tax consequences

For General Non-qualified Withdrawals, the earnings portion of the withdrawal will be subject to federal income taxes at the ordinary income tax rate of the payee of the General Non-qualified Withdrawal and an additional federal tax of 10%. The PA 529 IP will issue to the recipient a Form 1099-Q for the withdrawal that will specify the principal and earnings portions of the total withdrawal. If you are a Pennsylvania taxpayer, the entire withdrawal, including both principal and earnings, might be subject to Pennsylvania income tax. The rules governing this are explained in the Pennsylvania Department of Revenue's Personal Income Tax Bulletin 2006-04, which is available at PA529.com by clicking on the "Resources" link and then "Personal Income Tax Bulletin 2006-04." You may wish to consult a tax advisor on this matter.

## 8. Withdrawal upon voluntary termination

You can terminate your PA 529 IP Plan Contract and close your Account at any time by submitting a Withdrawal Request Form to the PA 529 IP. The resulting withdrawal will constitute a General Non-qualified Withdrawal except to the extent that the withdrawal qualifies as another type of withdrawal as discussed above. If the reason you wish to terminate your Account is that your Beneficiary has graduated from an Eligible Educational Institution or has decided not to attend one, you may want to consider alternatives to terminating your Account. These include changing the Beneficiary to a Family Member of the former Beneficiary — for example, a younger sibling; or keeping the Account open to pay in the event that the Beneficiary later decides to pursue further education, such as a graduate or professional degree. In making your decision, please consider that a Non-qualified Withdrawal will be taxable.

## 9. Withdrawals upon involuntary terminations

The PA 529 IP may terminate any Investment Plan Account if: (1) the PA 529 IP finds that the Account Owner or the Beneficiary has provided false or misleading information, (2) the Account Owner has violated the terms of the PA 529 IP Plan Contract — for example, by failing to pay required fees or expenses, (3) no contributions were made to the PA 529 IP Account within two months of the date on which such Account was established, or (4) the PA 529 IP, in its sole discretion, finds that termination is in the best interest of the PA 529 IP and its Account Owners.

In the case of a termination because the Account Owner or the Beneficiary has provided false or misleading information or has violated the terms of the PA 529 IP Contract, the Account will be paid to the Account Owner as a General Non-qualified Withdrawal except that the PA 529 IP may, in its discretion, withhold, and the Account Owner and the Beneficiary shall forfeit, all earnings on contributions, if any, accumulated in the Account, or such lesser amount as the PA 529 IP deems necessary in the PA 529 IP's discretion in light of such false or misleading information. In addition to any withholding, any fees paid on the PA 529 IP Account will not be refunded and will be forfeited by the Account Owner.

## 10. Aggregation of withdrawals for IRS Form 1099-Q purposes

Federal law requires that for purposes of determining the principal and earnings portion of a withdrawal, all PA 529 Accounts (including both the PA 529 GSP and PA 529 IP) which have the same Beneficiary and Account Owner will be treated as a single Account; that is, the Accounts must be "aggregated." This means that if you have both a PA 529 GSP and a PA 529 IP Account for the same Beneficiary and you take a withdrawal from only one, the PA 529 program must add both Accounts together to calculate the principal and earnings portion of the withdrawal for 1099-Q purposes.

## 11. How withdrawals are impacted by other tax benefits for education

Section 529 plans are one of several different tax benefits for education provided in the Tax Code. Taking a Qualified Withdrawal from your PA 529 IP Account may impact other federal tax benefits available to you and, conversely, taking other benefits might impact on whether the IRS will consider your 529 withdrawal to be non-taxable, taxable with the 10% additional tax, or taxable without the 10% additional tax. The other federal tax benefits for education and the interplay between them and Section 529 plans is discussed in IRS Publication 970, which is available at PA529.com by clicking on the "Resources" link and then "IRS Publication 970." Please consult that publication and/or a tax advisor.

## E. Pricing of Portfolio Units

When you contribute to the PA 529 IP, your money will be invested in Units of one or more Individual Portfolios, depending on the investment option(s) you select. The price of a Portfolio Unit is calculated each business day after the close of trading on the New York Stock Exchange ("NYSE"). The price is determined by dividing the dollar value of the Portfolio's net assets (i.e., total Portfolio assets minus total Portfolio liabilities) by the number of Portfolio Units outstanding. On holidays or other days when the NYSE is closed, the Portfolio's Unit price is not calculated, and the PA 529 IP does not transact purchase, exchange, transfer, or redemption requests.

When you purchase or redeem Units of a Portfolio, you will do so at the price of the Portfolio's Units on the trade date. Your trade date will be determined as follows:

- If the PA 529 IP receives your transaction request (whether to contribute money, withdraw money, or exchange money between Investment Options) at the physical location of the Processing Center (not just its Post Office Box) in good order on a business day prior to the close of the NYSE, your transaction will receive that day's trade date.
- If the PA 529 IP receives your transaction request at the physical location of the Processing Center (not just its Post Office Box) in good order on a business day after the close of the NYSE or at any time on a nonbusiness day, your transaction will receive the next business day's trade date.
- As an exception to the two points above, AIP and EBT contributions will receive a trade date of the business day before the day the bank debit occurs. Additionally, Ugift contributions will be treated as described in Part 2.B.7.f.

## F. Notification of Account Transactions and Changes

You will receive quarterly Account statements indicating, for the applicable time period: (1) contributions made to the Account, and (2) withdrawals made from the Account. Additionally, shortly after any transaction or changes to your Account, you will be sent confirmations. You will only receive confirmations for Account assets that are automatically moved to a more conservative Age-based Option as a Beneficiary ages, contributions made by automatic deductions from your bank Account or payroll deduction, and contributions made from your Upromise Service Account by changing your delivery options on your Account online at [www.PA529.com](http://www.PA529.com) or by calling us at 1-800-440-4000; these transactions will, however, always appear on your quarterly statement.

You can securely access and manage your Account information – including quarterly statements, transaction confirmations, and tax forms – through "My Account" access on the PA529.com website once you have created an online user name and password. If you open an Account online, the PA 529 IP requires you to select a user name and password right away. If you open an Account by submitting a paper application, you may establish a user name and password at any time.

The PA 529 IP uses reasonable procedures to confirm that transaction requests are genuine. However, you may be responsible for losses resulting from fraudulent or unauthorized instructions received by the PA 529 IP, provided the Plan reasonably believed the instructions were genuine. To safeguard your Account, please keep your information confidential. Contact Customer Service at 1-800-440-4000 immediately if you believe there is a discrepancy between a transaction you requested and your confirmation or quarterly statement, or if you believe someone has obtained unauthorized access to your

Account. If you receive a confirmation or quarterly statement that you believe does not accurately reflect your instructions, you have 60 days from the date of the confirmation or statement to notify the PA 529 IP of the error. If you do not notify the PA 529 IP within 60 days, you will be considered to have approved the information in the confirmation and to have released the PA 529 IP and its contractors from all responsibility for matters covered by the confirmation or statement.

## Part 3. Tax Information

The federal tax treatment of a PA 529 IP Account depends on the PA 529 IP being a “qualified tuition program” under Section 529 of the Tax Code. The tax rules applicable to Section 529 plans are complex, have not been finalized, and are, in some respects, open to different interpretations. The discussion of the federal tax treatment in this Disclosure Statement is not exhaustive; it is intended to provide general information as understood by the PA 529 based on the Tax Code, proposed regulations, and Internal Revenue Service announcements. The discussion of the Pennsylvania tax treatment is based on the Program’s understanding of Pennsylvania tax law, and Revenue Department bulletins and information.

**Please note that any tax information provided in this Disclosure Statement is not intended to be tax advice. However, to the extent that the information were to be construed as tax advice, pursuant to federal regulations governing practitioners who render tax advice (“Circular 230”), any information contained in this Disclosure Statement regarding the federal tax consequences of participation in the PA 529 IP is not intended or written to be used, and cannot be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer. Any such tax advice was written to support the promotion or marketing of the PA 529 IP. A taxpayer should seek advice based on the taxpayer’s particular circumstances from an independent tax advisor.**

In addition, Section 529 and federal and Pennsylvania tax laws in general are subject to legislative changes, regulatory changes, and court interpretations. Any of these could eliminate, reduce, or improve the tax advantages of the PA 529 IP or require changes in the structure of the Plan that may restrict or otherwise affect the use of your Account.

The PA 529 strongly encourages Account Owners and Beneficiaries to consult with their tax advisors regarding the tax consequences of contributing money to, or withdrawing money from, a PA 529 IP Account.

### A. Federal Tax Treatment

#### 1. Tax provisions related to contributions

##### a. In General

For federal tax purposes, contributions to an Account are made on an after-tax basis. That is, an Account Owner may not deduct the contribution from income for purposes of determining federal income taxes. Contributions to an Account do not result in taxable income to the Beneficiary. However, they may be considered gifts to the Beneficiary subject to the federal gift and generation-skipping transfer taxes discussed below (see Part 3.A.1.b.).

As discussed above (see Part 2.B.7.), contributions from the proceeds of (1) a Coverdell Education Savings Account described in Section 530 of the Tax Code; (2) the redemption of certain U.S. Savings Bonds described in Section 135 of the Tax Code; and (3) another Section 529 plan may be made without adverse federal income tax consequences if the applicable requirements are met. However, when contributions from any of these proceeds are made, the PA 529 IP must be provided with the breakdown of the principal and earnings portion of the contribution so that when the IRS Form 1099-Q for a subsequent withdrawal is issued, the principal and earnings prior to the contribution can be included. If the PA 529 IP is not provided with the breakdown, it is required to treat the entire contribution as earnings.

##### b. Federal Transfer Taxes (Gift, Generation-Skipping Transfer and Estate Taxes)

For federal tax purposes, contributions to a PA 529 IP Account are generally considered completed gifts to the Beneficiary (even though the Account Owner controls them and can make a Non-qualified Withdrawal and use it for any purpose). This means contributions are potentially subject to federal gift tax. Additionally, if the Beneficiary is two or more generations below the contributor or, in the case of a change of Beneficiaries, the new Beneficiary is two or more generations below the old Beneficiary, federal generation-skipping transfer taxes might also apply. Generally, if a contributor’s contributions, together with all other gifts by that contributor to the Beneficiary during a calendar year, are less than the gift tax annual exclusion amount, no federal gift tax or generation-skipping transfer tax will be imposed. The gift tax annual exclusion is currently \$13,000 for an individual (\$26,000 for a married couple that elects to split gifts) and is periodically adjusted for inflation. If all gifts to the Beneficiary (including the contribution to the Account) are that amount or less, the contributor is not required to file a federal gift tax return, unless an election to split gifts is to be made.

A special federal gift tax provision unique to Section 529 plan contributions, however, allows contributions up to five times the federal gift tax annual exclusion (currently \$65,000 for an individual and \$130,00 for a married couple) to be given in one year

without gift or generation-skipping transfer tax consequences. If a contributor's contributions exceed the gift tax annual exclusion, the contributor may elect to treat the contributions as having been made ratably over a five-year period beginning in the calendar year the contribution is made. The amount of contributions in excess of the five-year exclusion amount cannot be treated ratably and is considered a gift, subject to federal gift and generation-skipping taxes in the year of the contribution. If the \$13,000 gift tax annual exclusion is increased during the five-year period, an additional contribution can be made in the remaining years without gift or generation-skipping tax consequences up to the difference between the new exclusion amount and the yearly prorated amount. The five-year election is made on a Federal Gift Tax Return (Form 709) by a contributor (and his or her spouse if gift-splitting has been elected) for the calendar year in which the contribution is made. If the contributor dies during the five-year ratable period, the portion of the contribution allocable to the remaining years (not including the year of death) would be included in computing the contributor's gross estate for federal estate tax purposes. Except for contributions of a contributor who dies during an elected five-year ratable period, assets in an Account are considered to be assets of the Beneficiary for federal estate tax purposes.

Even if a contribution exceeds the gift tax annual exclusion or, if elected, the five-year ratable gift tax exclusion, gift and generation-skipping taxes might not be owed. The Tax Relief, Unemployment Reauthorization and Job Creation Authorization Act signed into law on December 17, 2010, provides for a unified gift and estate tax exclusion of \$5 million. This means that if gifts given during the contributor's lifetime combined with the value of his or her estate upon death are less than \$5 million, they are not subject to transfer taxes. Accordingly, while gift tax returns are required for gifts in excess of the \$13,000 (subject to adjustment for inflation) gift tax annual exclusion, no actual gift tax will be due until the applicable exemption amounts have been exhausted. This federal law, however, is scheduled to sunset on December 31, 2012, so federal transfer taxes' laws might be different when contributions are made to your Account.

## **2. Taxation of Earnings**

During the time contributions are held in an Account, their earnings are not subject to federal taxes; that is, they are tax deferred.

Whether and how the earnings are taxed when a withdrawal is made depends on the type of withdrawal being made (see Part 2.D. above). With limited exceptions, the earnings portion of a Qualified Withdrawal is not subject to federal taxes; that is, Qualified Withdrawals are tax exempt. If applicable requirements are met, the earnings portion of the following withdrawals is federal tax exempt: Account Transfers, Plan Transfers, and Rollovers. The earnings portion of Specific Non-qualified Withdrawals and General Non-qualified Withdrawals is subject to federal income tax as ordinary income (not capital gains). However, the earnings portion of General Non-qualified Withdrawals is subject to an additional 10% federal tax. Withdrawals because of the Beneficiary's death are exempt from the additional 10% tax only if they are paid to the Beneficiary's estate.

The Internal Revenue Service currently requires the PA 529 IP to issue Form 1099-Q for all withdrawals (excluding Account Transfers and Plan Transfers), regardless of whether the earnings are taxable. The 1099-Q will be issued to the Beneficiary if a withdrawal has been paid from the PA 529 IP to the Eligible Educational Institution or the Beneficiary; to the Beneficiary's estate if the withdrawal was paid to the estate; and to the Account Owner for all other withdrawals. All accounts in the PA 529, including both the PA 529 GSP and PA 529 IP, with the same Account Owner and Beneficiary will be aggregated for purposes of calculating the earnings portion of a withdrawal. This calculation will be made as of the withdrawal date.

Federal taxation of the earnings on Qualified Withdrawals may be impacted if other federal tax benefits for education (such as Coverdell Education Savings Accounts or the American Opportunity Credits) are used for the same Qualified Expenses. Consult IRS Publication 970 or a tax advisor to determine how the various programs interact and how best to use them. For tax-advantaged withdrawals (Qualified Withdrawals, Account Transfers, Plan Transfers, Rollovers, Specific Non-qualified Withdrawals), you should keep appropriate records to substantiate to the Internal Revenue Service that the requirements for benefiting from the tax advantage were met. If you use other federal tax benefits in the same tax year that you use your Account, you should keep appropriate records to substantiate the expenses for which each were used.

## **B. Pennsylvania Tax Treatment**

### **1. Tax provisions related to contributions**

Pennsylvania law provides that, for individuals subject to Pennsylvania income tax, contributions made to an Account may be deducted from taxable income on the contributor's annual personal income tax return. The maximum annual amount that may be deducted is limited to the amount of the federal gift tax annual exclusion, which is currently \$13,000 per Beneficiary per taxpayer. Married couples filing jointly can deduct up to \$26,000 provided each spouse has taxable income of at least \$13,000. The deductible amount will increase with any changes in the federal gift tax annual exclusion. The deduction cannot result in the taxable income being less than zero. Contributions that are Rollovers to the PA 529 IP from non-Pennsylvania 529 plans, reallocations of assets from the PA 529 IP, transfers of assets between PA 529 accounts, or the interest portion of redemption of qualified U.S. Savings Bonds are not eligible for the deduction.

## 2. Taxation of earnings

During the time contributions are held in an Account, their earnings are not subject to Pennsylvania income taxes; that is, the earnings are tax deferred. Additionally, when withdrawn, the earnings are exempt from Pennsylvania income tax if they are federally tax exempt. This means that Qualified Withdrawals, Rollovers, Account Transfers, and Plan Transfers are not subject to Pennsylvania income tax.

Non-qualified Withdrawals, both Specific and General, are subject to Pennsylvania income tax. Because contributions are income tax deductible as discussed above, if not used for Qualified Expenses, the entire withdrawal, both principal and earnings, might be subject to Pennsylvania income tax. Rules governing Pennsylvania taxation of Non-qualified Withdrawals are provided in the Pennsylvania Department of Revenue Personal Income Tax Bulletin 2006-04, which is available at PA529.com by clicking on the "Resources" link and then "Personal Income Tax Bulletin 2006-04." The Pennsylvania Department of Revenue's Online Customer Service Center ([www.revenue.state.pa.us](http://www.revenue.state.pa.us)) may be contacted for further information.

## 3. Taxation of transfers including inheritance tax

The transfer of any legal interest in an Account, whether during life or as a result of death of the Beneficiary or Account Owner, is exempt from all Pennsylvania taxation under certain conditions. This means that the assets in a PA 529 IP Account are generally not subject to Pennsylvania inheritance tax. Additionally, the designation of a new Beneficiary or the designation of a new Account Owner is not subject to Pennsylvania state or local taxes provided that the requirements for change of Beneficiary or Account Owner are met.

## C. Other States' Tax Treatment

This Disclosure Statement summarizes the federal and Pennsylvania tax laws applicable to the PA 529 IP. Other states' tax treatment may differ based on the state or states in which you pay taxes. You should consult with your tax advisor about any state or local taxes, including income, gift, estate, inheritance, and generation-skipping transfer taxes. If you are not a Pennsylvania taxpayer, consider before investing whether your or the Beneficiary's home state offers a qualified tuition program that provides its taxpayers with favorable state tax or other benefits that may only be available through investment in the home state's 529 plan. Please consult your financial, tax, or other advisor to learn more about how state-based benefits (or any limitations) would apply to your specific circumstances. You also may wish to contact your home state's qualified tuition program[s], or any other qualified tuition program, to learn more about those plans' features, benefits, and limitations. Keep in mind that state-based benefits should be one of many appropriately weighted factors to be considered when making an investment decision.

## D. Tax Reports

The PA 529 IP will report withdrawals and other matters to the Internal Revenue Service, the Account Owner or Beneficiary, and other persons, if any, to the extent required pursuant to federal, state, or local law, regulation, or ruling. Under federal law, IRS Form 1099-Q will be filed by the PA 529 Program with the Internal Revenue Service reporting withdrawals, whether taxable or tax-exempt (excluding Account Transfers or Plan Transfer). The form will also be sent to the Account Owner or Beneficiary, as appropriate, reflecting, among other information, the earnings portion withdrawn during the calendar year. For tax reporting purposes, the Internal Revenue Service currently requires the PA 529 IP to issue IRS Form 1099-Q to the Beneficiary if distributions are from a UGMA or UTMA account, directly to the Eligible Educational Institution, to the Beneficiary or, in the case of the Beneficiary's death, to the Beneficiary's estate; in all other cases, the 1099-Q will be issued to the Account Owner.

## Part 4. Risk Factors

The PA 529 IP is designed to help families save for future Eligible Expenses in a tax-advantaged way. However, as is the case with most financial products, there are various risks associated with making contributions to a PA 529 IP Account. In addition to the investment risks of the Portfolios, described in **Part 2.C.4**, this section describes some of the additional risks, but does not constitute an exhaustive list of the factors you should consider before making a contribution. You may wish to consult your financial advisor before making a contribution.

## A. Qualifying Tuition Plan

The Department intends to run the PA 529 IP in accordance with the requirements of Section 529 of the Tax Code. In the event that the PA 529 IP does not meet the requirements of Section 529, however, the tax advantages described in this Disclosure Statement may not be available to Account Owners or Beneficiaries, and there may be other adverse tax consequences as well. A potential Account Owner may wish to consult with a tax advisor.

## B. Investment Risks

If you invest in the PA 529 IP, you may lose money, including your principal. The value of your Account may increase or decrease over time based on the performance of the Portfolio(s) you select. It is possible that, at any given time, your Account's value may be less than the total amount contributed. None of the PA 529 IP, the Department, the Commonwealth of Pennsylvania, Vanguard, or Upromise makes any guarantee of, or has any legal obligations to ensure, a particular level of investment return. An investment in the PA 529 IP is not a bank deposit, and it is not insured or guaranteed by the federal government, the FDIC, the Commonwealth of Pennsylvania, or any other government agency.

Contributions to a PA 529 IP Account are invested in accordance with its Investment Guidelines, which are available at PA 529.com. The Investment Guidelines are subject to change by the Department in its sole discretion.

In addition to the PA 529, there are other ways to save for college, including non-Pennsylvania 529 plans, Coverdell Education Savings Accounts, as well as other education savings and investment alternatives. These alternative programs may offer different investment vehicles, and may result in different tax and other consequences. They may have different eligibility requirements and other features, as well as fees and expenses that may be more or less than those charged by the PA 529 GSP. You should consider other investment alternatives before establishing a PA 529 GSP Account.

## C. Plan Structure

Federal law restricts the frequency with which you may reallocate existing contributions in your PA 529 IP Account or make an Account Transfer, Plan Transfer, or Rollover. Other than choosing among the offered Investment Options, you do not control the investment instruments or asset allocation used. Your savings are considered less liquid than some other types of investments (for example, bank savings accounts or mutual funds) because the circumstances in which you may withdraw funds without a penalty or adverse tax consequences are more limited.

Even if you have reached the Maximum Contribution Limit for a Beneficiary, the balance in your Account may not be enough to cover all of the Beneficiary's Qualified Expenses.

If you take a General Non-qualified Withdrawal, for federal tax purposes the earnings will be taxable as ordinary income plus an additional federal tax of 10%. If you take a Specific Non-qualified Withdrawal, the earnings will be taxable as ordinary income without the additional federal tax of 10%. For Pennsylvania tax purposes, if the contributions were previously deductible (whether or not actually deducted) from Pennsylvania state income tax, the entire value of a General or Specific Non-qualified Withdrawal will be subject to Pennsylvania state income tax. (See Part 2.D.6. and 7. above.)

The amount of Qualified Expenses incurred by your Beneficiary could be less than the total value of your Account. If so, and if you do not or cannot change your Account to another Beneficiary, you will only be able to access the remaining value of your account through a General or, if available, Specific Non-qualified Withdrawal, and thus incur the adverse tax consequences noted in the previous paragraph.

The Department has the right to change your PA 529 IP Participation Agreement unilaterally and, in some instances, without prior notice to you, which could result in terms and conditions less favorable to the Account Owner and/or Beneficiary.

The Department reserves the right, in its sole discretion, to discontinue the PA 529 IP or to change any aspect of the Program. For example, the Department may change the PA 529 IP's fees and charges; add, subtract, or merge Portfolios; close a Portfolio to new investors; or change the Underlying Fund(s) of a Portfolio. Depending on the nature of the change, Account Owners may be required to participate in, or be prohibited from participating in, the change with respect to Accounts established before the change. Upromise may not necessarily continue as Recordkeeping and Servicing Agent, and Vanguard may not necessarily continue as Investment Manager.

## D. Change in Federal and State Law

Federal and state law and regulations governing Section 529 plans could change in the future. In addition, federal and state laws on related matters, such as the treatment for financial aid and bankruptcy, are subject to change. It is unknown what effect any future changes could have on an Account. The PA 529 IP reserves the right to modify the Plan as it deems necessary in its sole discretion, for such reasons as, but not limited to, ensuring compliance with state or federal laws and regulations, and preserving the Plan's status as a "qualified tuition program."

## **E. Impact on Eligibility for Financial Aid**

An Account will not affect your Beneficiary's eligibility for Pennsylvania state financial aid – primarily grants provided through the Pennsylvania Higher Education Assistance Agency (PHEAA). However, having an Account may impact the determination of federal financial aid or financial aid determinations made by an Eligible Educational Institution.

For federal financial aid purposes, an Account owned by a parent or dependent student is considered an asset of the parent and is treated as other parental assets, such as savings accounts or mutual fund holdings. On average, about 6% of parental assets are considered in determining the “expected family contribution.” If an independent student is the Account Owner, assets in the 529 account are treated as the student's assets and about 20% are considered in determining “expected family contribution.” Independent students are defined as “any individual who (1) is 24 years of age or older; (2) is an orphan or ward of the court or was a ward of the court until the individual reached the age of 18; (3) is a veteran of the Armed Forces of the United States or is currently serving on active duty in the Armed Forces for other than training purposes; (4) is a graduate or professional student; (5) is a married individual; (6) has legal dependents other than a spouse; or (7) is a student for whom a financial aid administrator makes a documented determination of independence by reason of other unusual circumstances.” Additionally, tax-free distributions from a 529 plan will not be considered in determining “amount of need” for this and other federal assistance programs. An Account Owner should consult a qualified financial aid advisor for further information on the impact of a 529 plan account on federal financial aid and on other forms of financial aid, including financial aid of states other than Pennsylvania and financial aid provided by educational institutions.

Financial aid rules are subject to change. The procedures and rules in effect when a Beneficiary applies for aid may be different than those described above.

## **F. No Guarantee of Admittance**

Having a PA 529 IP Account does not guarantee that your Beneficiary will be admitted to, be allowed to continue to attend, or receive a degree from any educational institution or will be considered a resident for tuition purposes.

## **G. No Indemnification**

The Commonwealth, Treasury Department, PA 529, Vanguard or Upromise or any of their affiliates, will not indemnify any Account Owner or Beneficiary against losses or other claims arising from the official or unofficial acts, negligent or otherwise, of a Commonwealth employee or arising from the acts, negligent or otherwise, of Vanguard or Upromise or any service providers authorized by the PA 529 IP and retained by Vanguard or Upromise.

## **H. Impact on Medicaid and other Federal and State Benefits**

The effect of an Account on eligibility for Medicaid or other state or federal benefits is uncertain. It is possible that an Account will be viewed as a “countable resource” in determining an individual's financial eligibility for Medicaid. Withdrawals from an Account during certain periods also may have the effect of delaying the disbursement of Medicaid payments. You should consult a qualified advisor to determine how a 529 plan account may affect eligibility for Medicaid or other state and federal benefits.

## **I. No Security Registration**

There has been no registration in connection with the PA 529, the PA 529 IP, or the PA 529 GSP with the U.S. Securities and Exchange Commission or with any state securities commission.

# **Part 5. Scholarship Accounts**

## **A. Establishment**

The Commonwealth of Pennsylvania (including its agencies), any political subdivision thereof, and any organization that is exempt from federal income taxation under Section 501(a) and described in Section 501(c)(3) of the Internal Revenue Code may open a PA 529 IP Account for the purpose of providing a scholarship. Before a PA 529 IP Account intended to be such a Scholarship Account is opened, the prospective Account Owner must register its scholarship program with the PA 529 IP. To register, the Account Owner must provide a description of the scholarship program including, but not limited to, the criteria established by the prospective Account Owner for its future selection of the Beneficiary and any other information that the PA 529 IP requires.

## B. Holding Account

The PA 529 IP may permit an entity establishing a Scholarship Account to have one "Holding Account" in which contributions for more than one future Beneficiary (to be chosen at a later date) may be held. At the time a scholarship is awarded, the sponsoring entity Account Owner may open a separate account for the then-identified scholarship recipient and transfer contributions (and attendant growth) from the Holding Account to the account designating the recipient as the Beneficiary.

## C. Terms and Conditions

All terms and conditions for a non-scholarship IP Account shall be the same for a "Scholarship Account" with the following exceptions:

- (1) The Beneficiary does not need to be designated when the PA 529 IP Account is opened but must be designated no later than the time the PA 529 IP Account is used to pay Qualified Higher Education Expenses. The designation of a Beneficiary for one academic period does not give that Beneficiary any entitlement to use the Scholarship Account for any other academic period. The Account Owner may designate different Beneficiaries for different academic periods.
- (2) The Maximum Contribution attributable to a non-scholarship account does not apply.
- (3) Depending on individual circumstances, use of a Scholarship Account for Qualified Higher Education Expenses may constitute receipt of a scholarship that, under Internal Revenue rules, may exempt the Beneficiary from paying federal income tax on any part of the PA 529 IP Account that is used for such purpose, whether or not the amounts so used would be exempt from federal income tax at such time in the case of a non-scholarship PA 529 IP Account.

## Part 6. Programs to Augment Your Savings

### A. SAGE Scholars Tuition Rewards

SAGE Scholars Tuition Rewards ("SAGE") is a free scholarship program available to those who use the PA 529 IP to save for college. Based on the value of your PA 529 IP Account, you earn Tuition Reward Points that can reduce undergraduate level tuition at SAGE participating private colleges and universities.

Points are earned at the end of each calendar quarter in an amount normally equal to 1.25 percent times the value of the Account. SAGE may, from time to time, in its sole discretion, increase the earnings percentage; and through December 31, 2012, SAGE has determined that Points will be earned in an amount equal to 2.50 percent times the value of the Account. The Points accumulate from quarter to quarter. If the Beneficiary attends one of the SAGE member schools starting with the freshman year, earned Tuition Reward Points entitle the Beneficiary to a discount in tuition of \$1.00 per Point. The maximum discount that will be honored varies by school but is generally one year of tuition spread evenly over four years. Currently, there are over 280 SAGE participating schools. For students starting in fall 2011, the discounts they honored were between \$8,500 and \$42,420.

To participate, your Beneficiary must be enrolled in SAGE no later than his or her 16th birthday; Tuition Reward Points stop accumulating on the student's 17th birthday. (An extension of the discount earnings period may be granted if the student is over 17 and has not entered the senior year in high school. To inquire about an extension, contact Customer Service at 1-800-440-4000.) You may enroll in SAGE on the PA 529 IP Enrollment Application by submitting a written form signed by the Account Owner, or through "My Account" access on the PA529.com website. When you enroll in SAGE, your SAGE account will be credited with 500 Tuition Reward Points for each of your PA 529 IP Accounts that you enroll. You may earn another 500 Points (per Account Owner, not per Account) by registering with SAGE at its website. Once registered with SAGE, you will be able to track the accumulation of your Tuition Reward Points at that website.

By enrolling in SAGE through PA 529 IP, you give the Plan permission to provide SAGE with information from your PA 529 IP Account so that your Tuition Reward Points may be calculated and credited to your SAGE account.

To claim your discount, when you apply at a SAGE participating school, you must notify the school of your enrollment in SAGE and submit your student's Reward Points. You must also be registered with SAGE through its website. A SAGE participating college may not take your enrollment in SAGE into consideration – either positively or negatively – when making its admission decision. **However, the school may consider the tuition discounts to which you are entitled in making its financial aid award decisions. The school, at its sole discretion, may add the SAGE tuition discounts on top of the aid you would have received without it or may reduce the aid, if any, you would have received by the amount of your SAGE tuition discounts.**

The SAGE Scholars Tuition Rewards program is offered and administered by SAGE Scholars, Inc., a private for-profit corporation. SAGE Tuition Reward points are offered to PA 529 IP Account Owners pursuant to a contract between SAGE and the Pennsylvania Treasury. SAGE is not sponsored by or affiliated with Upromise.

SAGE Scholars, Inc. has contractual agreements with each SAGE participating school through which the school agrees to provide tuition discounts based on the amount a family has saved in certain approved savings vehicles. The PA 529 IP is one of the approved savings vehicles. The total tuition discount under SAGE used by one student may not exceed the maximum tuition discount amount honored by the particular SAGE participating school attended by the student regardless of the number of SAGE Scholars, Inc., approved savings vehicles that have been used by the Account Owner.

SAGE Scholars, Inc. provides SAGE participating colleges the names and contact information of the student Beneficiaries enrolled in SAGE so that each participating school may contact them to encourage consideration of attending that school. When you enroll in SAGE through the PA 529 IP, you are granting the PA 529 IP permission to provide information on your Beneficiaries to SAGE Scholars, Inc., so that it may provide that information to SAGE participating schools.

SAGE tuition discounts earned through the PA 529 IP can be transferred from one Beneficiary to another Beneficiary by an Account Owner if the receiving Beneficiary is a Family Member of the Beneficiary from whom the tuition discounts are being transferred and the receiving Beneficiary has not yet entered his or her senior year in high school. SAGE and the PA 529 reserve the right to waive these restrictions on transfers for good cause. If a transfer is made between Beneficiaries, the 500-point SAGE student bonus given at enrollment may not be transferred, but the 500 points given to the Account Owner for registering at the website may be. Once a PA 529 IP Account is closed, unused SAGE tuition discounts may not be transferred.

Your enrollment in the SAGE Scholars Program through the PA 529 IP is subject to the terms and conditions of participation in the SAGE Scholars Program, which may be changed from time to time. These terms and conditions as well as other information on the SAGE Scholars Program, including the current list of SAGE participating schools and the maximum tuition discount honored by each participating school, can be obtained online at [www.tuitionrewards.com](http://www.tuitionrewards.com).

## **B. Upromise Service®**

The Upromise Service is an online service designed to help families earn extra money for college. Upromise Service members get back a percentage of their qualified spending with hundreds of America's leading companies. When you sign up for the Upromise Service, you can earn a percentage back by shopping online or in-store, eating out, buying groceries, purchasing travel, and more.

You can join the Upromise Service online at the conclusion of completing your online enrollment for the PA 529 IP or by going directly to the Upromise Service website, [www.Upromise.com/PA](http://www.Upromise.com/PA). Once you enroll in both the Upromise Service and the PA 529 IP, your accounts can be linked so that the savings in your Upromise Service account is automatically transferred to your PA 529 IP Account on a periodic basis. The minimum amount for an automatic transfer from a Upromise Service account to a PA 529 IP Account is \$25. Contributions made from the Upromise Service to your PA 529 IP may be deducted from your Pennsylvania taxable income subject to the total dollar limitation of the Pennsylvania tax deduction.

Upromise Service is offered by Upromise, Inc., an affiliate of Upromise Investment Advisors, LLC. This Disclosure Statement provides information concerning the PA 529 IP, and is not intended to provide detailed information concerning the Upromise Service. The Upromise Service is an optional service, is separate from the PA 529, and is not affiliated with the Commonwealth or the Treasury Department. Terms and conditions apply to the Upromise Service. Participating companies, contribution levels, and terms and conditions are subject to change at any time without notice. Go to [www.Upromise.com](http://www.Upromise.com) to learn more.

## **Part 7. Additional Legal and Administrative Information**

### **A. The Investment Guidelines**

The Investment Guidelines applicable to the PA 529 IP may be changed by the Department at any time. The current Investment Guidelines are available by calling 1-800-440-4000 or at [PA529.com](http://PA529.com).

## **B. PA 529 IP Procedures and Requirements**

Your Account and your PA 529 IP Contract are subject to all procedures and requirements adopted by the PA 529 IP from time to time. Additionally, the PA 529 IP reserves the right to:

- Refuse, change, discontinue, or temporarily suspend Account services, including accepting contributions and processing withdrawal requests, for any reason.
- Delay sending out the proceeds of a withdrawal request.
- Refuse, following receipt of a contribution, withdrawal requests relating to that contribution for up to 13 days.
- Suspend the processing of withdrawal requests or postpone sending out the proceeds of a withdrawal request under any emergency circumstances.

## **C. Availability of Financial Statements and Other Reports**

Upon request, Account Owners will be sent the annual audited financial report of the PA 529 IP, the annual report to the Governor and General Assembly, and any other official documents and reports issued by the PA 529 IP, if any. These may also be available at the PA529.com website. Thomas & Thomas LLP, an independent registered public accounting firm, prepares the audited financial report of the PA 529 IP.

The Bank of New York Mellon provides custody services with respect to the PA 529 IP.

## **D. Continuing Disclosure**

To comply with Rule 15c2-12(b)(5) of the Securities Exchange Act of 1934 (the "Rule"), Upromise or the Department, as appropriate, will make appropriate arrangements for the benefit of Account Owners to produce and disseminate certain financial information and operating data (the "Annual Information") relating to the PA 529 IP and notices of the occurrence of certain enumerated events as required by the Rule. They will make provision for the filing of the Annual Information with the Municipal Securities Rulemaking Board (MSRB) through the Electronic Municipal Market Access (EMMA) system.

## **E. Suitability**

The PA 529 IP, the PA 529, the Department, the Commonwealth of Pennsylvania, Upromise, and Vanguard make no representations regarding the suitability of the PA 529 IP's Investment Options for any particular investor. Other types of investments and other types of college savings vehicles may be more appropriate depending upon your personal circumstances. Please consult your tax or investment advisor for more information.

## **F. Not an Offer to Sell.**

This Disclosure Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of a security issued by the Program by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation, or sale.

## **G. Federal Bankruptcy Exemption for Certain Contributions to Accounts**

Federal bankruptcy laws exempt from an Account Owner's creditors certain funds contributed to an account under a Section 529 qualified state tuition program. The exemption protects (i) up to \$5,850 contributed to the account at least 365 days and within 720 days before the bankruptcy filing and (ii) all contributions and associated earnings (up to the maximum contribution amount which is currently \$368,600) made more than 720 days before the bankruptcy filing, providing in both cases that the Beneficiary of the Account during the tax year in which the contribution was made was a child, stepchild, grandchild, or step-grandchild of the Account Owner.

## **H. Limitation on Pledges, Assignments, and Loans**

Your PA 529 IP Account may not be pledged as security for a loan or debt. You may not borrow amounts in your Account.

## **I. Information Subject to Change**

The information in this Disclosure Statement is believed to be accurate as of the cover date but is subject to change without notice. No one is authorized to provide information that is different from the information in the most current form of this Disclosure Statement and any amendments to this Disclosure Statement.

## **J. Important Reference Material**

Please keep this Disclosure Statement for future reference. This document gives you important information about the PA 529 IP, including information about investment risks, and the terms under which you agree to participate in the PA 529 IP.

## **K. Conflicts**

In the event of any conflicts, the Pennsylvania statutes, the U.S. Internal Revenue Code, and any regulations promulgated pursuant to those laws shall prevail over this Disclosure Statement.

## Appendix A: PA 529 IP Participation Agreement

1. I hereby agree that by opening a Pennsylvania 529 Investment Plan Account, I am entering into a contract (the "Contract") with the Commonwealth of Pennsylvania, Treasury Department (the "Department"), the Pennsylvania 529 College Savings Program ("PA 529"), and the Pennsylvania 529 Investment Plan ("PA 529 IP") as authorized by the Tuition Account Programs and College Savings Bond Act, Act of 1992, April 3, P.L. 28, No. 11, 24 P.S. 6901.101, et seq., as amended (the "Enabling Law"). The Contract includes this Participation Agreement, the PA 529 IP Disclosure Statement, and the Enrollment Application. By signing and submitting the Enrollment Application, I am agreeing to the terms and conditions set forth in these documents. I acknowledge that each capitalized term used but not defined in this Participation Agreement has the same meaning as it has in the PA 529 IP Disclosure Statement ("Disclosure Statement") and/or the Enabling Law.
2. I have received and have had an opportunity to read the Disclosure Statement. I have been given the opportunity to obtain answers to all of my questions concerning the PA 529, the PA 529 IP, My Account, and the Contract. I understand that the Contract shall become effective upon the opening of the Account. In making a decision to open an Account and enter into this Contract, I have not relied upon any representations or other information, whether oral or written, other than as set forth in this Contract.
3. I understand that, subject to all applicable state and federal laws, rules, and regulations, the Contract is the complete and exclusive statement of the agreement between the Department, the PA 529, the PA 529 IP, and me. I understand that the Contract supersedes any prior agreement, oral or written, and any other communications between the Department (through any means and by any individuals) relating to the subject matter of the PA 529 IP. The Department and the PA 529 IP make every effort to ensure that all documentation about the PA 529 IP is accurate. If, however, there is a conflict between any such documentation and the Contract, the terms described in the Disclosure Statement shall take precedence followed by the PA 529 IP Participation Agreement.
4. I understand that the qualification of the PA 529 IP as a "qualified tuition plan" under Section 529 of the Internal Revenue Code is vital, and agree that the Contract may be amended by the Department or the PA 529 IP at any time without my consent or prior notice if the Department or PA 529 IP determines that such an amendment is required for the PA 529 IP to be qualified.
5. I understand and agree that the Department and the PA 529 IP reserve the right, upon written notice and without my consent, to modify the Contract, as deemed necessary by the Department in its sole discretion, for such reasons as, but not limited to, ensuring compliance with state or federal laws and regulations and ensuring the proper administration of the PA 529 IP. To the extent, if any, that the Contract references procedures, the Department and the PA 529 IP reserve the right to change those procedures.
6. I certify that I am opening and contributing to my Account to provide funds for the Qualified Higher Education Expenses of the Beneficiary. I understand that any contribution, or portion of such contribution, that causes the total Account balance in the aggregate for all Accounts (regardless of who owns the Accounts) for the same Beneficiary both in the PA 529 IP and the Pennsylvania 529 Guaranteed Savings Plan ("PA 529 GSP") to exceed the applicable Maximum Contribution Limit (currently \$368,600 but subject to change) will be rejected and returned. I understand that taking a withdrawal for any reason other than the payment of Qualified Expenses may subject that withdrawal to federal and Pennsylvania state taxes and penalties.
7. I recognize that saving in the PA 529 IP involves certain risks, and I have taken into consideration and understand the risks including, but not limited to, those set forth in the Disclosure Statement.
8. With respect to each Investment Option, I understand and acknowledge that neither my contributions nor investment returns so allocated to my Account are guaranteed or insured by any person or entity. I understand that there is no guarantee that the Plan's investment objectives will be achieved. I further acknowledge that neither the Department nor the TAP Advisory Board may pledge the credit or taxing power of the Commonwealth. Nothing in the Contract shall be deemed or construed as an express or implied waiver of the sovereign immunity of the Commonwealth of Pennsylvania, the Department, the PA 529, or the PA 529 IP, or as a pledge of the full faith and credit of the Commonwealth.
9. I understand that none of the Commonwealth, the Department, or any consultant, advisor, or other entity retained by the Commonwealth or the Department has any debt to me, the Beneficiary, a contributor to an Account, or any other person as a result of the establishment of a PA 529 IP Account, and that none of such parties assumes any risk or liability for funds contributed to the PA 529 IP.

10. I understand that, other than directing new contributions among the Investment Options, I have no authority to direct the investment of any assets in my PA 529 IP and that, while I may move my assets to other 529 plans, including the PA 529 Guaranteed Savings Plan, and between PA 529 IP Accounts, without incurring federal and/or Pennsylvania tax consequences and penalties, there are restrictions and limitations on my doing so.
11. I acknowledge and agree that no PA 529 IP Account may be used as collateral for any loan. Any attempted use of a PA 529 IP Account as collateral for a loan shall be void.
12. I acknowledge and agree that I may not assign or transfer any interest in any PA 529 IP Account except as provided in the Contract or as required by law (including transfers of record ownership from a custodian of an Account established for a minor under UGMA or UTMA when the minor reaches the age of majority). Any other attempted assignment or transfer of such interest shall be void.
13. I acknowledge and agree that the PA 529 IP is established and maintained by the Commonwealth and the Department pursuant to the Enabling Law and other applicable laws and is intended to qualify for certain federal income tax consequences under Section 529 of the Internal Revenue Code. I further acknowledge that such federal and state laws are subject to change, sometimes with retroactive effect, and that none of the Commonwealth, the Department, the PA 529 IP, contractor, or any advisor, consultant, or other entity retained by any such party makes any representation that such state or federal laws will not be changed or repealed or that the terms and conditions of the PA 529 IP will remain as currently described in the Contract.
14. I certify that all information provided by me or on my behalf in the Enrollment Application, any supplement thereto, or to any other portion of the PA 529 IP Plan Contract, and in any documents, notices, or certifications delivered under the PA 529 IP Plan Contract, is and will be true and correct. I will promptly notify the PA 529 IP of any changes to any such information.
15. I understand and acknowledge that there is no guarantee or commitment whatsoever from the Commonwealth of Pennsylvania, the Department, the PA 529, the PA 529 IP, or any other person or entity that (a) actual higher education expenses will be equal to projections and estimates, if any, provided by the PA 529 IP, (b) the Beneficiary will be admitted to any institution (including an Eligible Educational Institution), (c) upon admission to an institution, the Beneficiary will be permitted to continue to attend, (d) upon admission to an institution, state residency will be created for tuition, tax, financial aid eligibility, or any other purpose for the Beneficiary, (e) the Beneficiary will graduate or receive a degree from any institution, or (f) contributions and investment returns in this Account will be sufficient to cover the Qualified Higher Education Expenses of the Beneficiary even if they meet or exceed the Maximum Contribution Limit.
16. To the extent, if any, that I am entering into the Contract in a representative or fiduciary capacity, I have full power and authority to enter into and perform the Contract.
17. I understand that I may cancel the Contract at any time by written notice to the PA 529 IP and that if, in doing so, I take a Qualified Withdrawal or Non-qualified Withdrawal, the provisions governing those will be applicable.
18. I understand that any contractor engaged by the Department or the PA 529 IP in fulfillment of its powers and duties under the Enabling Law is a third-party beneficiary of my statements, agreements, representations, warranties, and covenants in the Contract.
19. I recognize that the establishment of any PA 529 IP Account will be based upon my statements, agreements, representations, warranties, and covenants set forth in the Contract, and I agree to indemnify and hold harmless the Commonwealth, the Department, the PA 529, the PA 529 IP, a contractor, and any representatives or contractors of any such party from and against any and all loss, damage, liability, or expense, including costs of reasonable attorney's fees, to which they may be put or which they may incur by reason of, or in connection with, any misstatement or misrepresentation made by me or a Beneficiary, any breach by me of the acknowledgments, representations, or warranties contained in the PA 529 IP Participation Agreement, any failure to fulfill any covenants or agreements set forth herein, or any action taken by such party in accordance with the terms of the Contract. If the indemnification provided for in this paragraph is unavailable, in whole or in part, or is insufficient to hold an indemnitee harmless, then I agree to contribute to the amount paid or payable by the indemnitee in such proportion as is appropriate to reflect the relative benefits received by the indemnitee and me in connection with my PA 529 IP Account(s) or, if such allocation is not permitted by applicable law, in such proportion to reflect not only the relative benefits received but also the relative fault of the indemnitee and me. The relative benefits received by a party shall be the total revenue derived by each party from the transaction(s) underlying the claim subject to indemnification or contribution. The relative fault shall be determined by reference to the act or acts committed by each party in the transaction(s) underlying the claim subject to indemnification or

contribution and the parties' relative intent, knowledge, access to information, and opportunity to prevent or correct the act or acts committed by each party in the transaction(s) underlying the claim subject to indemnification or contribution. All of my statements, representations, warranties, or covenants, and this paragraph, shall survive the termination of the Contract.

20. I acknowledge and agree that the PA 529 IP may at any time, and from time to time, be suspended or terminated. But, except as otherwise expressly provided herein, the Account may not be diverted from me or my Beneficiary's exclusive benefit. Nothing contained in the Contract shall constitute an agreement or representation by the Department, the PA 529, the PA 529 IP, or any other party that the PA 529 IP will be maintained indefinitely. Any amendments to statutes or regulations governing the PA 529 IP automatically amend the Contract, and any amendments to operating procedures and policies of the PA 529 IP will amend the Contract when such amendments become effective. Nothing in the Act or the PA 529 IP Plan Contract may be construed to give a Beneficiary any rights or legal interest in a PA 529 IP Account unless the Beneficiary is also the Account Owner.
21. All factual determinations regarding a Beneficiary's Disability, Family Members, Material Misrepresentations, and any other factual determinations regarding the Contract will be at the sole discretion of the Department or the PA 529 IP.
22. The Contract will be construed in accordance with the laws of the Commonwealth of Pennsylvania.
23. In the event that any clause or portion of the Contract is found to be invalid or unenforceable by a court of competent jurisdiction, at the option of the Department or the PA 529 IP, the Contract may be deemed void, or that clause or portion found to be invalid will be severed from the Contract and the remainder of the Contract will continue in full force and effect as if such clause or portion had never been included.
24. **Any controversy or claim arising out of or relating to the PA 529 IP or the Enrollment Application, or the breach, termination, or validity of the Investment Plan or the Enrollment Application, to the extent allowed under the Commonwealth's statutory waiver of Sovereign Immunity, shall be settled by arbitration administered by the American Arbitration Association (the "AAA") in accordance with its Commercial Arbitration Rules (except that if Vanguard or Upromise is a party to the arbitration, it may elect that arbitration will instead be subject to the Code of Arbitration Procedure of the Financial Industry Regulatory Authority), which are made part of this Agreement, and judgment on the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof.**

**By signing an Enrollment Application and upon acceptance of my first contribution by the PA 529 IP, I and the other parties to the PA 529 IP agree as follows:**

- a. **All parties to the PA 529 IP are giving up important rights under state law, including the right to sue each other in court and the right to a trial by jury, except as provided by the rules of the arbitration forum;**
- b. **Arbitration awards are generally final and binding; a party's ability to have a court reverse or modify an arbitration award is very limited;**
- c. **The ability of the parties to obtain documents, witness statements, and other discovery is generally more limited in arbitration than in court proceedings;**
- d. **The potential costs of arbitration may be more or less than the cost of litigation;**
- e. **The arbitrators do not have to explain the reason(s) for their award;**
- f. **The panel of arbitrators will typically include a minority of arbitrators who were or are affiliated with the securities industry;**
- g. **The rules of the arbitration forum may impose time limits for bringing a claim in arbitration;**
- h. **In some cases, a claim that is eligible for arbitration may be brought in court; and**
- i. **No person shall bring a putative or certified class action to arbitration, nor seek to enforce any predispute arbitration agreement against any person who has initiated in court a putative class action, who is a member of a putative class who has opted out of the class with respect to any claims encompassed by the putative class action until (1) the class certification is denied, or (2) the class is decertified, or (3) the customer is excluded from the class by the court. Such forbearance to enforce an agreement to arbitrate shall not constitute a waiver of any rights under this agreement except to the extent set forth in this section.**



**Vanguard®**

**Pennsylvania 529 Investment Plan  
Suite 529  
607 South Drive  
Harrisburg, PA 17120-0600**

**Processing Center  
P.O. Box 55378  
Boston, MA 02205-5378**

**PA529.com  
[PAIP@ptreasury.gov](mailto:PAIP@ptreasury.gov)  
1-800-440-4000**

The Pennsylvania 529 Investment Plan (PA 529 IP) is authorized by the Commonwealth of Pennsylvania and administered by the Pennsylvania Treasury Department, which serves as Program Manager. Upromise Investment Advisors, LLC, serves as Recordkeeping and Servicing Agent. The Vanguard Group, Inc. serves as Investment Manager for the PA 529 IP. The PA 529 IP's Portfolios, although they invest in mutual funds, are not mutual funds.

Investment returns are not guaranteed, and you could lose money by investing in the PA 529 IP. Account Owners assume all investment risks, including the potential for loss of principal, as well as responsibility for any federal and state tax consequences.

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