



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

Background

The 2006 Kansas legislature created a matching grant program, as a part of the Learning Quest 529 Education Savings Program administered by the State Treasurer, for Kansas residents with incomes below 200% of the federal poverty level. By participating in the K.I.D.S. program, the state will match your contributions to your Learning Quest account up to \$600 per year. The matching grant funds can be used to fund your beneficiary's qualified higher education expenses. This is a three year pilot project limited to 400 participants in calendar year 2006 with 100 participants from each of Kansas' four Congressional Districts; 800 in 2007 with 200 participants from each of Kansas' four Congressional Districts; and 1200 in 2008 with 300 participants from each of Kansas' four Congressional Districts.

Handbook Variations

This Program Description contains variations to your Learning Quest Handbook that address how your account will be registered and how withdrawals will be handled. All the other terms in your Learning Quest Handbook that are not addressed in this Program Description will apply to your K.I.D.S. program participant account. These differences ensure that the matching grant funds are used only for the beneficiary's qualified higher education expenses and that only the eligible K.I.D.S. program participant can have an ownership interest in the account.

Eligibility

To be eligible for calendar year 2006, a participant must be a resident of the state of Kansas and live in a household with a total 2005 Federal Adjusted Gross Income for all members of the household that is less than the amount listed below:

Persons in Family or Household	income below
1	\$19,600
2	\$26,400
3	\$33,200
4	\$40,000
5	\$46,800
6	\$53,600
7	\$60,400
8	\$67,200
For each additional person, add	\$6,800

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

A participant must apply each year for the matching grant using the total household income from the previous tax year. When reapplying each year, participants approved for the previous year will be given priority over new applicants if their K.I.D.S. program application for the current year is received by June 1st each year. Because the program is open to a limited number of participants on a first come first served basis, applicants are encouraged to apply as soon as they have completed their income tax return.

Each participant may only receive one matching grant, but there is no limit to the number of participants from the same household that can be eligible participants. Each eligible participant must file a federal income tax return or be listed as a joint filer on a federal joint tax return and must not be claimed as the dependant of another taxpayer. Individuals under the age of 18 may be eligible participants if they filed a federal income tax return for the prior tax year and were not claimed as a dependent on another taxpayer's tax return.

Account Setup

To open a Learning Quest account you will have to make a one-time contribution of \$500 or set up an automatic monthly investment of at least \$25 from your bank account or paycheck. (See your Learning Quest application for instructions for establishing an automatic investment.) Once your automatic contributions reach \$100, you'll be entitled to the matching grant.

Once you are approved to participate in the K.I.D.S. program for the current year, we will open two Learning Quest accounts based on the Learning Quest application you submit along

with the K.I.D.S. program application. The first Learning Quest account will be registered as your “Participant Account,” and it will hold your grant eligible contributions. The second account will be registered as your “Match Account,” and it will hold the matching grant funds that you will receive each January from the State of Kansas. The beneficiary that you designate and the investment portfolio that you select on the Learning Quest application will be used for both of these accounts. You may change the beneficiary and the investment option, but the changes will be applied to both accounts. The account owner for either account cannot be changed except upon your divorce, death or incapacitation. Your accounts will be restricted to only accept withdrawals and other transactions in writing so that we can better track these restrictions.

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

Joint account owners

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

How the match occurs

In January, the Treasurer’s Office will review your contributions to your Participant Account for the prior year through December 31, determine the amount of matching grant funds that you are eligible to receive, and make a deposit into your Match Account. To receive the matching grant funds, you must contribute a minimum of \$100 per year. Match contributions will be made equal to your contributions up to \$600 per year. Any withdrawals from your account prior to when the match occurs in January will be subtracted from the amount contributed so that the match is based on your net contributions for the year.

Any contribution by anyone other than you will not qualify for the matching grant and will be placed in a separate unrestricted account in your name.

Multiple accounts for different beneficiaries

Each Participant is only entitled to one matching grant. If the Participant has multiple accounts for different beneficiaries, the matching grant will automatically be allocated to your accounts in the same order that you contribute the first \$600 to the accounts. Once you have contributed \$600 per calendar year, any additional contributions will be placed in an unrestricted account. If you have already contributed a total of more than \$600 to your accounts when your K.I.D.S. grant application is approved, we will allocate the grant equally among the accounts.

Qualified withdrawals of the matching grant funds

To make a withdrawal from your Match Account, you will have to prove to the Treasurer's Office that the beneficiary has incurred qualified higher education expenses at an institution approved by the College Board to receive federal financial aid. This includes colleges and universities along with many trade schools for students that have earned their high school diploma or GED. Qualified expenses include: tuition, fees, books and other required supplies, and room and board. Unless you have the withdrawal paid directly to the educational institution, you will be required to pay these expenses and submit receipts with your request for a withdrawal. Qualified withdrawals will be processed by deducting 50% of the requested amount from your Participant Account and 50% from your Match Account. This will ensure that your money and the state's money are spent equally to pay for the beneficiary's qualified expenses. You will not be allowed to make a nonqualified withdrawal from your Match Account. A withdrawal form can be obtained from the Treasurer's Office or American Century Investments.

Nonqualified withdrawals from the Participant Account

At any time, you can request a nonqualified withdrawal from your Participant Account, but you will forfeit an equal amount from your Match Account. Requests for withdrawals must be submitted in writing on a form that can be obtained from the Treasurer's Office or American Century Investments. The balance in your Match Account will be treated as earnings for the purpose of calculating the earnings portion of any non-qualified withdrawal from any account for the same beneficiary. The earnings portion of a non-qualified withdrawal is subject to federal and state taxation and a 10% federal penalty tax.

Tax Issues

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

Contact information

If you have questions about the KIDS program, you can contact the Treasurer's Office at 785-296-3171 or by email at LQ@treasurer.state.ks.us or contact American Century Investments at 1-800-579-2203.