

# **NORTHEAST INVESTORS TRUST**

## **EDUCATION SAVINGS ACCOUNT**

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# NORTHEAST INVESTORS TRUST EDUCATION SAVINGS ACCOUNT

## Introduction

This booklet describes the Northeast Investors Trust Education Savings Accounts (also referred to as Coverdell Education Savings Accounts, and previously as Coverdell IRAs). Education Savings Accounts first became available in 1998. This booklet describes the Coverdell Education Savings Account rules as modified by the Economic Growth and Tax Relief Reconciliation Act of 2001. The changes became effective starting in 2002, and were extended through the end of 2012 by the **Tax Relief, Unemployment Insurance Re-authorization and Job Creation Act of 2010**. A subsequent law (the American Taxpayer Relief Act of 2012), enacted in early 2013, made these provisions permanent for years after 2012. The material in this booklet is based on the best information available at the time this booklet was published. If you have specific questions about how the Education Savings Account rules apply to your particular situation or about the latest Education Savings Account developments or any changes in the rules, you should consult a qualified professional or the IRS. If, as a result of future developments or changes in the rules, it becomes necessary to revise the Custodial Agreement or other legal documents governing your account, Northeast Investors Trust will send you the necessary amendments.

The booklet does not describe our Traditional IRAs which have been available for many years, or our Roth IRAs which were introduced in 1998. If you would like to receive materials or information on either a Northeast Investors Trust Traditional IRA or a Northeast Investors Trust Roth IRA, please call us at 800-225-6704 or visit our website at [www.northeastinvestors.com](http://www.northeastinvestors.com).

This booklet is divided into three sections. The first section is the Disclosure Statement; the second is the Custodial Agreement; and the third are the necessary forms to open and make changes and withdrawals from an Education Savings Account. For simplification, Northeast Investors Trust is generally referred to only as "Trust" in the Disclosure Statement and Custodial Agreement.

## **NORTHEAST INVESTORS TRUST EDUCATION SAVINGS ACCOUNT DISCLOSURE STATEMENT**

### **Briefly, what is an Education Savings Account?**

A Northeast Investors Trust Education Savings Account ("Education Savings Account") is a convenient and sensible method of saving for education expenses. Any person,—such as a parent, grandparent or other family member, a friend, or an individual on his own behalf may establish and contribute to an Education Savings Account for any living individual (in other words, Education Savings Accounts cannot be established for children who are not yet born or for groups of individuals) who is under 18 years old at the time of the contribution. An Education Savings Account to be funded with a rollover contribution or a direct transfer from another such account may be established on behalf of an individual who is less than age 30 at the time of the rollover or transfer. These age restrictions do not apply to a Special Needs Student. With an Education Savings Account, the person making the contribution does not receive a deduction for the contributions made, but earnings accumulate tax-free, and withdrawals for qualified education expenses come out of the Education Savings Account tax-free, as well.

Here's how it works: an individual, the "Depositor", is generally permitted to contribute up to \$2,000 annually (subject to certain limitations based on annual income and filing status). When initially established, the contribution limit was \$500. The \$2,000 limit was scheduled to revert to \$500 after 2010, but had been extended through 2012. The American Taxpayer Relief Act of 2012, which became law in early 2013, made these limits of Education Savings Accounts permanent. Contributions go to an Education Savings Account established for the benefit of a specified individual, the "Designated Beneficiary." A parent or guardian, the "Responsible Individual", must manage and administer the Education Savings Account on behalf of any Designated Beneficiary who has not attained the age of majority in his or her state of residence ("age of majority"). For this reason, all duties and responsibilities are referred to as duties and responsibilities of the Responsible Individual. Only one parent or guardian may act as the Responsible Individual. Generally, a Depositor must be at least the age of majority in order to establish an Education Savings Account for someone other than himself or herself. Individuals who want to open an Education Savings Account for themselves may do so even if they have not reached the age of majority.

The Depositor may contribute up to \$2,000 annually for as many different Designated Beneficiaries (in as many different Education Savings Accounts) as the Depositor wishes. However, no more than a total of \$2,000 in annual contributions may be made on behalf of any single Designated Beneficiary in one year, counting all Education Savings Account contributions from all Depositors. This means that the Designated Beneficiary or the Responsible Individual must always check to make sure that all contributions received in Education Savings Accounts on behalf of that particular Designated Beneficiary do not exceed \$2,000 in a given year.

A withdrawal from an Education Savings Account is tax-free if the proceeds are used to meet the cost of qualified education expenses. If the amount withdrawn is not used to meet qualified education expenses, or if the amount withdrawn exceeds the amount needed in a year to meet those expenses, then the amount subject to taxation (which is the earnings on the portion of the withdrawal not used for qualified education expenses) will be included in the Designated Beneficiary's taxable income for the year, and may be subject to an additional 10% penalty.

The entire account balance in an Education Savings Account must be withdrawn within 30 days of the Designated Beneficiary's 30th birthday, or within 30 days of his or her death. (The age 30 restriction does not apply to Special Needs Students.) Any amounts not withdrawn by the deadline will be deemed distributed under federal tax law, and the Designated Beneficiary will be taxed on the taxable amount. The additional 10% penalty may also apply.

Account balances can also be rolled over or transferred to an Education Savings Account established for a member of the Designated Beneficiary's family to avoid a deemed distribution.

Contributions to an Education Savings Account are invested in shares of Northeast Investors Trust (there is a \$500 minimum investment).

The growth in an Education Savings Account (both earnings and appreciation) is exempt from federal income tax while it accrues inside the Account. Withdrawals treated as coming from principal are not subject to income tax or

penalty. Withdrawals to cover the cost of qualified education expenses -- including withdrawals of earnings and appreciation -- may also be made without income tax or penalty.

An Education Savings Account must meet certain requirements of the Internal Revenue Code. The agreement establishing the Education Savings Account must be in writing, and it must provide that the custodian is a bank and that contributions must be in cash. The Northeast Investors Trust Education Savings Account Custodial Agreement is designed to meet the requirements in order to receive the favorable federal income tax treatment provided by law. (Note: State law tax treatment may differ. Consult your personal tax advisor.)

### **Revocation**

The Depositor may revoke the Education Savings Account within seven calendar days after Northeast Investors Trust receives the Education Savings Account Adoption Agreement establishing the Education Savings Account. The amount of the Depositor's initial contribution will be returned to the Depositor without penalty, administrative charge or adjustment for dividends or investment gains or losses.

To revoke an Education Savings Account, the Depositor should mail or deliver a written notice of revocation to Northeast Investors Trust, 125 High Street, Boston, Massachusetts 02110. Please call customer service at 800-225-6704 with any questions.

### **Four Important Points**

First, this booklet summarizes the federal tax treatment of Northeast Investors Trust Education Savings Accounts. State taxes on Education Savings Accounts may vary from federal taxes. Additional information on this can be found under the State Tax Rules section herein.

Second, this booklet covers the federal tax rules for Education Savings Accounts as revised by the 2010 tax law. If you need to know the tax rule laws applicable to Education Savings Accounts for earlier years, consult your tax or financial advisor or the Internal Revenue Service.

Third, any uncertainty about eligibility to be either a Depositor or a Designated Beneficiary or about the amount of a contribution or the qualified status of a withdrawal should be resolved through consultation with your personal tax or financial advisor or the Internal Revenue Service. This booklet outlines the main rules, but no summary can describe all the rules that could apply in each individual case. The Trust has no responsibility for determining anyone's eligibility for an Education Savings Account, or whether a particular withdrawal will be qualified.

Fourth, the Internal Revenue Service has promulgated the language of Articles I-IX of the Northeast Investors Trust Education Savings Account Custodial Agreement in Form 5305-EA to set forth the terms and conditions which must be contained in an Education Savings Account agreement. This does not mean that the IRS approves the merits of investing in a Northeast Investors Trust Education Savings Account.

For further information about Education Savings Accounts, contact any district office of the Internal Revenue Service.

### **Investments**

Contributions to a Northeast Investors Trust Education Savings Account will be invested exclusively in shares of Northeast Investors Trust. Dividends and distributions will be automatically reinvested. For more information about Northeast Investors Trust, see the current prospectus for the fund. Read the prospectus before investing.

### **ESTABLISHING AN EDUCATION SAVINGS ACCOUNT**

Any Depositor who has reached the age of majority may establish an Education Savings Account and make annual contributions to it. The Education Savings Account may be for the benefit of any other specific living person, the "Designated Beneficiary," who is under 18 years old at the time of the contribution. In addition, a Depositor may establish an Account to be funded with a rollover contribution or a direct transfer from the custodian of another Education Savings Account. In this case, the Designated Beneficiary must be less than age 30 at the time of the rollover or transfer. These age restrictions do not apply to a Designated Beneficiary who is a Special Needs Student

(defined below). (The requirement that the Designated Beneficiary be a "specific living person" means, for example, that an Education Savings Account cannot be established for an individual not yet born at the time the Education Savings Account is established, nor can a single Education Savings Account be established for a group of individuals.) The Depositor does not have to be related to the Designated Beneficiary. (Note: A Depositor may establish an Education Savings Account for himself or herself regardless of whether he or she has reached the age of majority.)

Since 2002, corporations as well as individuals may be Depositors and make contributions to an Education Savings Account on behalf of a Designated Beneficiary.

A "Special Needs Student" is a Designated Beneficiary who, because of a physical, mental or emotional condition (including a demonstrable learning disability), requires additional time to complete his or her education. Any requirements for being a Special Needs Student in any applicable IRS regulations or rulings must also be satisfied.

After the initial contribution has been made and the Depositor has designated the initial investments, the Depositor will have no further rights over the administration of the Education Savings Account, except for exercising the revocation rights discussed above, or unless the Depositor and the Responsible Individual or the Designated Beneficiary (as applicable) are all the same person.

The Responsible Individual must manage and administer the account on behalf of any Designated Beneficiary who has not attained the age of majority. Any duty, right or responsibility of a Designated Beneficiary regarding the Account will be exercised or required of the Responsible Individual if the Designated Beneficiary has not reached the age of majority. The Responsible Individual must be a parent or guardian of the minor Designated Beneficiary. Only one parent or guardian may be the Responsible Individual for any one Education Savings Account. In addition, the Depositor may, by checking the box on the Adoption Agreement, elect to have the Responsible Individual continue to exercise responsibility for the Account even after the Designated Beneficiary reaches the age of majority. If this box has not been checked, the Designated Beneficiary may assume responsibility for administering the Account after he or she has attained the age of majority. To do so, the Designated Beneficiary should notify the Trust in writing that he or she wishes to assume responsibility for the Education Savings Account. The Trust may require verification of the Designated Beneficiary's age.

## **HOW MUCH CAN BE CONTRIBUTED?**

### **Annual Contributions**

Annual Contributions by a Depositor who is an individual taxpayer may be limited depending on filing status and amount of income. This limit is explained in this section.

A Depositor who files his or her federal income tax return as a single taxpayer may contribute \$2,000 a year to an Education Savings Account established for a Designated Beneficiary if the Depositor's modified adjusted gross income ("modified AGI") is \$95,000 or less. The \$2,000 maximum limit is reduced if a single taxpayer's modified AGI is over \$95,000 but less than \$110,000 (the "Single Phase Out Range"). Single taxpayers with modified AGI in excess of \$110,000 in a year may not contribute to an Education Savings Account for that year.

A Depositor who is married and files a joint federal income tax return can contribute as much as \$2,000 per year to an Education Savings Account established for a Designated Beneficiary if the Depositor and his or her spouse's modified AGI for the year is \$190,000 or less. The \$2,000 maximum contribution amount is reduced if a married joint filer has a modified AGI of between \$190,000 and \$220,000 (the "Married Phase Out Range"). A married taxpayer filing jointly may not contribute if modified AGI for the year exceeds \$220,000.

The amount that may be contributed if the Depositor's modified AGI falls in either the Single Phase Out Range or the Married Phase Out Range is calculated as follows: in either case, the difference between the Depositor's actual modified AGI and the lower limit of the Phase Out Range (\$95,000 for single filers, \$190,000 for married joint filers) is divided by the value of the respective Phase Out Range (\$15,000 for single filers, \$30,000 for married joint filers).

The resulting amount is then multiplied by \$2,000. This number is then subtracted from \$2,000 to get the amount that may be contributed.

For example, in 2019 Joe, a single filer with a modified AGI of \$100,000, wants to contribute up to his maximum limit to an Education Savings Account established for the benefit of his friend's son, Bill. Joe's maximum limit is calculated as follows:

1. The difference between Joe's modified AGI and the lower limit of the Single Phase Out Range: \$100,000-\$95,000 = \$5,000

2. This is divided by \$15,000 (the value of the Single Phase Out Range):  $\frac{\$5,000}{\$15,000} = 0.3333$

3. Multiply this by \$2,000:

$$0.3333 \times \$2,000 = \$666.67$$

4. This is subtracted from the \$2,000 contribution limit:

$$\$2,000 - \$666.67 = \$1,333.33$$

5. In 2019, Joe may contribute up to **\$1,333.33** to an Education Savings Account established for the benefit of Bill.

Two important points to note: First, in our example Joe's contribution limit is \$1,333.33. This means that Joe may contribute up to \$1,333.33 in 2019 to an Education Savings Account established for the benefit of any Designated Beneficiary. In other words, if Joe wanted to contribute to Education Savings Accounts established for Bill and a number of other eligible individuals in 2019, he could do so, but he could not contribute more than \$1,333.33 to each Designated Beneficiary's Education Savings Account.

Second, if Joe does contribute \$1,333.33 to an Education Savings Account established for Bill, Joe's limit has no impact on anyone else's ability to contribute in 2019 to this or any other Education Savings Account established for the benefit of Bill. That is, another Depositor could contribute up to \$666.67 in 2019 to this or any other Education Savings Account established for the benefit of Bill, as long as the \$2,000 limit on all annual contributions made in 2019 to Education Savings Accounts on Bill's behalf is not exceeded. It is important that the Designated Beneficiary or the Responsible Individual (or another parent or guardian) keep track of contributions to all Education Savings Accounts for that Designated Beneficiary to insure that the contribution limit is not exceeded. Neither the custodian nor the Trust is able to monitor the limit.

The fact that a rollover contribution or a transfer to the Designated Beneficiary's Education Savings Account from another such account is made during the same year does not reduce the annual contribution limit for that year as described above.

### **Modified Adjusted Gross Income**

As indicated above, the maximum amount that may be contributed on an annual basis to an Education Savings Account by a Depositor who is an individual taxpayer depends on the Depositor's modified AGI. AGI is total income less certain adjustments such as business expenses or alimony, but before itemized deductions. "Modified AGI" is AGI plus certain amounts that may have been earned abroad or subject to foreign housing exclusions and/or deductions. In general, Depositors without foreign income, or income earned in Puerto Rico or American Samoa, should simply use normal AGI in place of modified AGI. (Consult your tax advisor if you need additional information.)

### **How Much Of The Contribution Can I Deduct?**

Contributions to an Education Savings Account may not be deducted. The Education Savings Account simply provides a vehicle in which savings for education costs may grow tax-free. When a withdrawal from the Education



Savings Account is made, the entire amount, principal and earnings, comes out of the Account tax-free, as long as the amount withdrawn is used for qualified education expenses.

### **When Can Contributions Be Made?**

Since 2002, an Education Savings Account must be established and contributions made by the due date (without extensions) of the Depositor's federal income tax return for that year. Typically this will be April 15 of the following year. Also, if the Depositor is a corporation or another entity (not an individual), the contribution due date for any year is December 31 of that year.

### **Rollover Contributions**

The account balance in an Education Savings Account may be rolled over to a newly created or existing Education Savings Account as long as the Designated Beneficiary for the receiving Education Savings Account and the transferring Education Savings Account is the same person. Alternatively the Designated Beneficiary of the receiving Account may be a family member of the Designated Beneficiary for the transferring account, as long as the new Designated Beneficiary is under age 30 (or is a Special Needs Student).

The limits on annual contributions discussed above do not apply to rollovers.

Education Savings Account rollovers must be completed within 60 days of the distribution from the first Education Savings Account. Only one Education Savings Account 60-day rollover may be performed in any 12-month period. Thus, after a rollover is made with a withdrawal from an Education Savings Account, another rollover from the same Account cannot be made until a full year has gone by. Also, after assets are withdrawn from Education Savings Account and then are rolled over to another Account, a second rollover of the same assets cannot be made for a full year. These restrictions on withdrawals and rollovers do not apply to direct transfers from one Education Savings Account custodian to another custodian.

Family members include any of the following who are under 30 years old, or are a Special Needs Student, at the time of the distribution from the first Education Savings Account: (a) the Designated Beneficiary's spouse, or (b) the Designated Beneficiary's children and their descendants, stepchildren and their descendants, siblings and their children, parents, grandparents, step-parents, and spouses of all of these individuals, or (c) the Designated Beneficiary's first cousins.

Families of soldiers who receive military death benefits may contribute, subject to certain limitations, up to 100 percent of such benefits into an Educational Savings Account. IRS Publication 970, *Tax Benefits for Education*, explains the rules for rolling over the military death gratuity and defines eligible family members for whom such contributions could be made.

### **INVESTMENT OF ACCOUNT**

Contributions to Northeast Investors Education Savings Accounts must be invested in shares of Northeast Investors Trust. Investments are subject to the \$500 minimum investment requirement. Before investing, the Depositor and/or the Responsible Individual should be sure to read the current prospectus for Northeast Investors Trust to become familiar with its investment objectives and policies.

### **EXCESS CONTRIBUTIONS**

An "Excess Contribution" occurs in an Education Savings Account in the following ways: (i) when the \$2,000 per Designated Beneficiary per year limit is exceeded (not including any rollover or direct transfer contribution amounts), or (ii) when the Depositor exceeds his or her contribution limit based on modified AGI and filing status (as discussed prior).

If an Excess Contribution occurs, the Designated Beneficiary must pay an IRS penalty of 6% of the excess contribution. (The 6% penalty tax applies for each year that the Excess Contribution remains in the Education Savings Account.) The penalty tax can be avoided for a year if the excess is withdrawn before the first day of the sixth month of the year following the year of the contribution (the "Excess Contribution Withdrawal Deadline"). For calendar year taxpayers (most people), this means no later than May 31 of the following year. To correct the

Excess Contribution in this manner, the Excess Contribution must be withdrawn; also net earnings on the Excess Contribution must be withdrawn and included in income for the tax year when the contribution was made. An Excess Contribution can also be corrected - and the 6% penalty possibly avoided -- by contributing an amount out of the Education Savings Account into a qualified state tuition program (if one is available) in the same year in which the contribution was made (subject to any rules or restrictions applicable to the qualified state tuition program).

If the deadline is missed and excess contributions remain for the year for which the Excess Contribution was made, then the Designated Beneficiary will be subject to the 6% excise tax. The Excess Contribution amount will be subject to the 6% excise tax in future years as well. However, to avoid additional excise taxes in future years, the Excess Contribution amount may be eliminated if less is contributed than the contribution limit. The undercontribution amount eliminates an equal amount of remaining Excess Contribution.

Because of the various ways in which an Excess Contribution can occur, and because Education Savings Accounts for a single Designated Beneficiary may be established by more than one Depositor, the Trust and the custodian cannot and will not check whether any contribution may result in an Excess Contribution. The Responsible Individual must be responsible for checking with friends and family to determine whether contributions that have been made or are intended to be made will result in an Excess Contribution being made to a Designated Beneficiary's Education Savings Account.

#### **WITHDRAWALS**

The portion of any withdrawal that is considered a return of principal contributions to the Education Savings Account is free from income tax and penalties.

However, in order for the entire amount in the Account -- including earnings and growth -- to be withdrawn tax free, the withdrawn amount must be used to cover the cost of qualified education expenses incurred in the same year as the withdrawal by the Designated Beneficiary while attending an eligible educational institution. Also, the amount of the withdrawal in a year must not exceed the qualified education expenses for that year.

#### **Qualified Education Expenses**

Generally speaking, qualified education expenses can include certain higher education (post-secondary) costs. In addition, since 2002, qualified expenses also include certain elementary and secondary school expenses. These are described in more detail below.

Qualified higher education expenses include amounts contributed to a qualified state tuition program, and expenses incurred for tuition, books, supplies, and equipment required for enrollment or attendance at an eligible educational institution. In the case of a Special Needs Student, qualified higher education expenses include the cost of special needs services which are incurred in connection with such enrollment or attendance. For students attending an eligible educational at least half-time, qualified higher education expenses also include room and board charges; the limit is generally the greater of the room and board allowance applicable to students at the institution, as determined by the eligible educational institution or, for students residing in housing owned or operated by the eligible educational institution, the actual invoice amount charged by the institution.

Most colleges, universities, post-secondary vocational schools, or other post-secondary educational institutions are considered to be eligible educational institutions; check with the school attended to verify that it is an eligible educational institution as described in section 481 of the Higher Education Act of 1965.

Withdrawals from an Education Savings Account may also be used for qualified elementary and secondary school expenses. Qualified elementary and secondary expenses include expenses for tuition, fees, academic tutoring, and special needs services in the case of a Special Needs Student, books, supplies, and other equipment which are incurred in connection with the Designated Beneficiary's enrollment or attendance at a school. Such expenses also include cost of room and board (for boarding school), uniforms, transportation, and supplementary items and services (including extended day programs) which are required or provided in connection with attendance or enrollment. Also covered is the purchase of computer equipment and software and related technology (but not

sports, games or hobby-related software, unless predominantly educational in nature) or Internet access and related services, if such items will be used by the Designated Beneficiary (and his or her family) during any year in which he or she is in school.

A school for these purposes is any school which provides elementary or secondary education (K through 12) under applicable state law. The school can be public, private or religious.

Finally, if a withdrawal is used to make a contribution on behalf of the Designated Beneficiary (or in the case of a change in beneficiary, on behalf of a family member of the Designated Beneficiary) to a qualified state tuition program, the withdrawal will be considered to have been applied for qualified education expenses. Qualified state tuition programs are operated by governmental agencies in most states. They are sometimes called "529 Plans" because they operate under Section 529 of the Internal Revenue Code.

### **Income and Penalty Tax Rule and Exceptions**

If the rules discussed above for a tax-free withdrawal are not satisfied, the Designated Beneficiary will have to pay regular income taxes plus an IRS penalty tax of 10% on the "taxable withdrawal" (the portion of the withdrawal treated as earnings and appreciation). However, the 10% penalty does not apply if:

- the withdrawal is paid to the Designated Beneficiary's estate within 30 days of his death;
- the withdrawal is paid on account of the Designated Beneficiary's disability; or
- the withdrawal equals or is less than the amount of a scholarship or other tax-free educational assistance the Designated Beneficiary receives. The Responsible Individual and not the custodian or Northeast Investors Trust is solely responsible for determining whether a withdrawal is being made for qualified education expenses, and whether any taxes or penalties apply.

If the amount withdrawn exceeds the Designated Beneficiary's qualified education expenses in a year, part of the excess amount will be subject to taxation. The taxable amount is calculated by first determining the ratio that the Designated Beneficiary's qualified education expenses bear to the actual amount withdrawn. The portion of the withdrawal that is potentially subject to taxation - the amount considered earnings and appreciation - is then multiplied by that percentage amount. The resultant amount is the amount excludable from income. The remaining portion of the earnings and appreciation is taxable.

Taxable amounts from an Education Savings Account are included as regular income and are not eligible for any special tax treatment, for example averaging treatment or capital gains tax treatment.

### **Impact on Education Tax Credits**

Under prior tax law rules, if the Designated Beneficiary received a tax-free distribution from an Education Savings Account in a particular tax year, none of the Designated Beneficiary's education expenses for that year could be claimed as the basis for a Hope Scholarship Credit or Lifetime Learning Credit.

Starting in 2002, education expenses may be claimed as the basis for a Hope Scholarship Credit or Lifetime Learning Credit in the same year that a Designated Beneficiary receives a tax-free distribution from an Education Savings Account, as long as the distribution is not used for the same educational expenses for which a credit is claimed.

Designated Beneficiaries and parents should consult with their tax advisors to determine whether they may claim a deduction for educational expenses in the same year that the Designated Beneficiary received a tax-free distribution from an Education Savings Account.

### **WHEN MUST DISTRIBUTIONS BE MADE?**

The entire account balance must be distributed from an Education Savings Account within 30 days after the Designated Beneficiary's 30th birthday, unless the Student is a Special Needs Student. All earnings and growth will be reported as income, and will also be subject to the 10% penalty unless an exception applies. To avoid incurring

either tax or penalty, the Responsible Individual may (if the Depositor, when he opened the Account, elected to permit a change in Designated Beneficiary) change the Designated Beneficiary to, or may rollover or transfer the assets to an Education Savings Account maintained for the benefit of, a member of the Designated Beneficiary's family who is under age 30, or is a Special Needs Student

### **Change of Designated Beneficiary**

Instead of a rollover, another way to change the Designated Beneficiary for an Education Savings Account is simply to have the Responsible Individual of an Education Savings Account name a new Designated Beneficiary for the Account. The new Designated Beneficiary must be a family member of the original Designated Beneficiary (as defined above) who is under age 30 (or is a Special Needs Student) at the time the change is made. For example, if the Designated Beneficiary for an Account is approaching age 30 and funds remain in the Account, changing the Designated Beneficiary to a younger family member who will have educational expenses is a way to avoid a deemed distribution of the Account when the original Designated Beneficiary reaches age 30.

Note: This option is available only if the Depositor has indicated on the Adoption Agreement form that the Responsible Individual may change the Designated Beneficiary named in the Adoption Agreement.

### **Death Beneficiary**

In general, the assets of the Account must also be distributed to the Designated Beneficiary's estate within 30 days after his or her death. However, if a death beneficiary has been named for the Account (either in the Adoption Agreement or in a designation of death beneficiary subsequently filed with the custodian), the death beneficiary will become the new Designated Beneficiary for the Account as long as the death beneficiary is a member of the original Designated Beneficiary's family and is either under age 30 or a Special Needs Student. In that event, the account balance may be retained in the Account and used for the qualified educational expenses of the new Designated Beneficiary. If these requirements are not satisfied, the amount remaining in the Account should be withdrawn by the death beneficiary or else it will be deemed to have been distributed to the death beneficiary 30 days after the original Designated Beneficiary's death.

In the case of a Designated Beneficiary who reaches age 30 (and is not a Special Needs Student) or dies (except as described above), any amounts remaining in an Education Savings Account at the end of the 30-day period will be deemed to have been distributed. The earnings and growth will then be reported as income, and the 10% penalty may apply.

### **SOME THINGS TO AVOID**

Transactions between the Responsible Individual or the Designated Beneficiary and the Education Savings Account must be avoided since they are prohibited by federal law. Specific "prohibited transactions" are listed in the Internal Revenue Code. They include borrowing from the Education Savings Account, selling or exchanging property with the Education Savings Account, and similar transactions.

If the Responsible Individual or Designated Beneficiary engages in a prohibited transaction, the Education Savings Account will lose its tax-exempt status. The taxable amount in the account will be treated as taxable income of the Designated Beneficiary in that year. In addition, the 10% penalty on taxable withdrawals may apply.

Similarly, if all or part of the Education Savings Account is used to secure a loan, the part so used that is attributable to earnings or growth will be treated as taxable income to the Designated Beneficiary in that year, and 10% penalty may apply.

## **CUSTODIAN FEE AND OTHER CHARGES**

### **Annual Maintenance Fee**

Each year, a \$10 fee is charged to the Account to cover the cost of the Education Savings Account custodian services provided by State Street Bank and Trust Company and other services. The amount of the fee may be changed by Northeast Investors Trust. As a matter of convenience, we offer a choice of two ways to pay this fee:

1. **Automatic Deduction:** Automatic deduction is the most convenient method. The \$10 fee is automatically deducted from the Education Savings Account in December, and the deduction will be reflected in the year-end statement.
2. **Payment by Check:** You may send a check for \$10 payable to Northeast Investors Trust at any time during the year to cover the maintenance fee. If the fee is not paid by year end, the fee will be automatically deducted from the Account.

PLEASE TAKE NOTE: Any fees that are to be paid by check should be made payable and sent directly to:

**Northeast Investors Trust**  
125 High Street  
Boston, MA 02110

### **Northeast Investors Trust Fee**

The Trustees of Northeast Investors Trust are entitled to receive an annual fee equal to 1/2 of 1% of the principal of the Trust, computed at the end of each quarter at the rate of 1/8 of 1% of the principal at the close of the quarter. For this purpose, the principal of the Trust is the total value of the Trust's investment portfolio and other assets, less all liabilities except accrued Trustees' fees.

The Trustees of Northeast Investors Trust are entitled to charge a redemption fee of up to 1% of the net asset value of the shares redeemed. It is the present policy of the Trustees not to charge such a fee, but this policy may be changed by the Trustees without notice to the shareholders.

For further information on the Trustees' annual fee and the redemption of shares, see the current Northeast Investors Trust prospectus.

### **Growth of the Education Savings Account**

Dividends and any capital gains and other distributions on the shares of Northeast Investors Trust in an Education Savings Account will be reinvested in additional shares and fractional shares.

Shareholders of Northeast Investors Trust are entitled to receive dividends approximately equal to the net income of the Trust, plus other cash distributions as the Trustees may declare. Net income is the gross earnings of the Trust less expenses, and each share is entitled to receive a proportionate amount of a dividend or distribution.

Because the net income of Northeast Investors Trust may fluctuate from year to year, fixed dividends cannot be promised. Also, because the value of their investment portfolios may fluctuate, the amount available for distribution from an Account cannot be projected or guaranteed.

For further information on dividends and distributions, see the current Northeast Investors Trust prospectus.

**State Tax Rules**

The tax rules discussed in this booklet are based on federal law. Tax treatment of Education Savings Accounts under state law varies from state to state.

Non-residents of Massachusetts are not liable for Massachusetts income tax on taxable amounts earned by or withdrawn from a Northeast Investors Trust Education Savings Account. For advice on treatment of Education Savings Accounts under the tax laws of Massachusetts or other states, consult your tax advisor or legal counsel.

**IRS Reports and Returns**

If an IRS penalty is owed due to an excess contribution, a non-qualified withdrawal, a withdrawal in excess of the amount needed to meet educational expenses, the failure to withdraw the account balance within 30 days of the attainment of age 30 (unless the Designated Beneficiary is a Special Needs Student) or the Designated Beneficiary's estate within 30 days of death, the appropriate IRS reporting form must be filed with an individual tax return.

## **STATE STREET BANK AND TRUST COMPANY EDUCATION SAVINGS ACCOUNT CUSTODIAL ACCOUNT AGREEMENT**

Articles I - IX are in the form promulgated by the Internal Revenue Service in Form 5305-EA (Revised October 2010). References are to sections of the Internal Revenue Code of 1986, as amended ("Code").

### **Article I.**

The Custodian may accept additional cash contributions provided the Designated Beneficiary has not attained the age of 18 as of the date such contributions are made. Contributions by an individual contributor may be made for the tax year of the Designated Beneficiary by the due date of the beneficiary's tax return for that year (excluding extensions). Total contributions that are not rollover contributions described in section 530(d)(5) are limited to \$2,000 for the tax year. In the case of an individual contributor, the \$2,000 limitation for any year is phased out between modified adjusted gross income (AGI) of \$95,000 and \$110,000. For married individuals filing jointly, the phase-out occurs between modified AGI of \$190,000 and \$220,000. Modified AGI is defined in section 530(c)(2).

### **Article II.**

No part of the Custodial Account funds may be invested in life insurance contracts, nor may the assets of the Custodial Account be commingled with other property except in a common investment fund (within the meaning of section 530(b)(1)(D)).

### **Article III.**

1. Any balance to the credit of the designated Beneficiary on the date on which he or she attains age 30 shall be distributed to him or her within 30 days of such date.
2. Any balance to the credit of the designated Beneficiary shall be distributed within 30 days of his or her death unless the designated death beneficiary is a family member of the Designated Beneficiary and is under the age of 30 on the date of death. In such a case, the family member shall become the Designated Beneficiary as of the date of death.

### **Article IV.**

The Depositor shall have the power to direct the Custodian regarding the investment of the above-listed amount assigned to the Custodial Account (including earnings thereon) in the investment choices offered by the Custodian. The Responsible Individual, however, shall have the power to redirect the Custodian regarding the investment of such amounts, as well as the power to direct the Custodian regarding the investment of all additional contributions (including earnings thereon) to the Custodial Account. In the event that the Responsible Individual does not direct the Custodian regarding the investment of additional contributions (including earnings thereon), the initial investment direction of the Depositor also will govern all additional contributions made to the Custodial Account until such time as the Responsible Individual otherwise directs the Custodian. Unless otherwise provided in this agreement, the Responsible Individual also shall have the power to direct the Custodian regarding the administration, management, and distribution of the Account.

### **Article V.**

The "Responsible Individual" named by the Depositor shall be a parent or guardian of the Designated Beneficiary. The Custodial Account shall have only one Responsible Individual at any time. If the Responsible Individual becomes incapacitated or dies while the Designated Beneficiary is a minor under state law, the successor Responsible Individual shall be the person named to succeed in that capacity by the preceding Responsible Individual in a witnessed writing or, if no successor is so named, the successor Responsible Individual shall be the Designated

Beneficiary's other parent or successor guardian. At the time that the Designated Beneficiary attains the age of majority under state law, the Designated Beneficiary becomes the Responsible Individual. If a family member under the age of majority under state law becomes the Designated Beneficiary by reason of being a named death beneficiary, the Responsible Individual shall be such Designated Beneficiary's parent or guardian.

Option. *(This provision is effective only if checked):* The Responsible Individual shall continue to serve as the Responsible Individual for the custodial account after the Designated Beneficiary attains the age or majority under state law and until such time as all assets have been distributed from the custodial account and the custodial account terminates. If the Responsible Individual becomes incapacitated or dies after the Designated Beneficiary reaches the age of majority under state law, the Responsible Individual shall be the Designated Beneficiary.

#### **Article VI.**

The responsible individual  may or  **may not** change the beneficiary designated under this agreement to another member of the designated beneficiary's family described in section 529(e)(2) in accordance with the custodian's procedures.

#### **Article VII.**

1. The Depositor agrees to provide the Custodian with all information necessary to prepare any reports required under section 530(h).
2. The Custodian agrees to submit to the Internal Revenue Service (IRS) and the Responsible Individual the reports prescribed by the IRS.

#### **Article VIII.**

Notwithstanding any other articles which may be added or incorporated, the provisions of Articles I through III will be controlling. Any additional articles inconsistent with section 530 and related regulations will be invalid.

#### **Article IX.**

This Agreement will be amended as necessary to comply with the provisions of the Code and the related regulations. Other amendments may be made with the consent of the Depositor and the Custodian whose signatures appear on the Adoption Agreement.

#### **Article X.**

1. Definitions. As used in this Custodial Agreement, the following terms have the following meanings:

"Adoption Agreement" is the application signed by the Depositor to accompany and adopt this Custodial Account. The Adoption Agreement may also be referred to as the "Account Application".

"Agreement" means this State Street Bank and Trust Company Education Savings Custodial Account Agreement and the Adoption Agreement signed by the Depositor and the Responsible Individual.

"Custodial Account" means Northeast Investors Education Savings Account established using the terms of this Agreement and the Adoption Agreement signed by or on behalf of the Designated Beneficiary.

"Custodian" means State Street Bank and Trust Company.

"Death Beneficiary" means the person designated in the Adoption Agreement (or on a form acceptable to the Custodian for use in connection with the Custodial Account) who is designated as the beneficiary of the Designated Beneficiary to receive the Custodial Account in the event of the death of the Designated Beneficiary.

"Depositor" means the person or entity designated as such in the Adoption Agreement (or on a form acceptable to the Custodian for use in connection with the Custodial Account, and filed with the Sponsor).



“Designated Beneficiary” means the person designated as such in the Adoption Agreement (or on a form acceptable to the Custodian for use in connection with the Custodial Account). The Designated Beneficiary may, in writing on such form as may be acceptable to the Custodian designate another person, who is a “family member” of the Designated Beneficiary (within the meaning of section 529(e)(2) of the Code) who is under the age of 30 (or who is a Special Needs Student of any age) as the successor Designated Beneficiary with respect to the Custodial Account hereunder, and thereafter such individual will be the Designated Beneficiary for purposes of this Agreement. If the Responsible Individual is authorized to control the Custodial Account after the Designated Beneficiary attains the age of majority, references to “Designated Beneficiary” in this Article X shall mean the “responsible Individual” unless the context indicates otherwise.

“Distributor” means the entity which has a contract with the Fund to serve as distributor of the shares of the Fund. In any case where there is no Distributor, the duties assigned hereunder to the Distributor may be performed by the Fund or by an entity that has a contract to perform management or investment advisory services for the Fund.

“Fund” means Northeast Investors Trust; provided, however, that the fund must be legally offered for sale in the state of the Designated Beneficiary’s residence.

“Responsible Individual” is a parent or guardian of the Designated Beneficiary. Only one parent or guardian may serve as Responsible Individual (and sign the Adoption Agreement) for any Education Savings Account. The individual designated and serving as Responsible Individual at any time may be changed as provided in Article V or Section 7(d) of this Article X, or under such other circumstances and in accordance with such procedures as the Custodian may agree to.

“Service Company” means any entity employed by the Custodian or the Distributor, including the transfer agent for the Fund, to perform various administrative duties of either the Custodian or the Distributor. In any case where there is no Service Company, the duties assigned hereunder to the Service Company will be performed by the Distributor (if any) or by an entity specified in the definition of “Distributor”.

“Sponsor” means Northeast Investors Trust.

“Special Needs Student” is a Designated Beneficiary who, because of a physical, mental, or emotional condition (including a demonstrable learning disability) requires additional time to complete his or her education. Any requirements for a “Special Needs Student” specified in IRS regulations or rulings (if any) defining this term also must be satisfied.

“Spouse” means an individual married to the Depositor under the laws of the applicable jurisdiction. The term “spouse” shall include same-sex individuals whose marriage was validly entered into in a jurisdiction whose laws authorize such marriage even if the couple is domiciled in a jurisdiction that does not recognize the validity of same-sex marriages. The term “spouse” shall not include individuals (whether of the same or opposite sex) who have entered into a registered domestic partnership, civil union, or other similar relationship recognized under the laws of a jurisdiction that is not denominated as marriage under the laws of the jurisdiction. A Depositor and his or her spouse are deemed to be “married” for all purposes of this Agreement.

2. (a) Revocation Subject to the last paragraph of this Section 2(a), the Depositor may revoke the Custodial Account established hereunder by mailing or delivering a written notice of revocation to The Custodian within seven days after the Donor first receives the Disclosure Statement related to the Custodial Account. Mailed notice is treated as given to the Custodian on the date of the postmark (or on the date of Post Office certification or registration in the case of notice sent by certified or registered mail). Upon timely revocation, the Depositor will receive a payment equal to the initial contribution, without adjustment for administrative expenses, commissions or sales charges, fluctuations in market value or other changes.

The Depositor may certify in the Adoption Agreement that the Depositor received the Disclosure Statement related to the Custodial Account at least seven days before signing the Adoption Agreement to establish the Custodial Account, and the Sponsor and Custodian may rely on such certification. In any instance where it is established that

the Depositor has had possession of the Disclosure Statement for more than seven days, it will be conclusively presumed that the Depositor has waived his or her right to revoke under this Section.

(b) *Rights and responsibilities of Depositor, Responsible Individual and Designated Beneficiary.* After making a contribution to the Custodial Account for the benefit of the Designated Beneficiary, and specifying the initial investment elections and the initial Designated Beneficiary, all rights and obligations to, in and for the Custodial Account shall irrevocably inure to, and be enjoyed and exercised by, the Designated Beneficiary, and Depositor shall have no such rights or obligations (unless Depositor and Designated Beneficiary or Responsible Individual are the same person or unless Depositor revokes the Custodial Account in accordance with subsection (a) above).

The Depositor must sign the Adoption Agreement, and, for purposes of maintaining the Custodial Account, the Responsible Individual (identified in the Adoption Agreement) must execute all forms, applications, certifications and other documents on behalf of any Designated Beneficiary who has not yet attained the age of majority as recognized by the laws of the Designated Beneficiary's state of residence ("age of majority"). Any right, power, responsibility, authority or requirement given to the Designated Beneficiary under this Agreement or any related document shall be exercised or carried out by such Responsible Individual on behalf of any Designated Beneficiary who has not yet attained the age of majority. The Custodian's acceptance of the Custodial Account on behalf of a minor Designated Beneficiary is expressly conditioned upon the Responsible Individual's acceptance of the rights and responsibilities accorded hereunder, and all parties hereto so acknowledge. In accordance with the option in Article V hereof, if the Depositor so elects in the Adoption Agreement, the Responsible Individual shall continue to control the Account for the Designated Beneficiary, irrespective of the Designated Beneficiary's age. If the Depositor does not make such an election in the Adoption Agreement, the Custodian shall deem the Depositor to have specified that the Designated Beneficiary shall, upon reaching the age of majority as recognized by laws of his or her state of residence ("age of majority") and so notifying the Sponsor on behalf of the Custodian (along with such documentation as the Custodian may require), assume sole responsibility for maintaining and administering the Account. The Designated Beneficiary shall thereupon become the Responsible Individual for the Account and the Sponsor and Custodian shall deal exclusively with the Designated Beneficiary as the Responsible Individual controlling the administration of the Account. (Absent such written notice by Designated Beneficiary, Custodian and Sponsor shall be under no obligation to acknowledge Designated Beneficiary's right to exercise such powers and authority and may continue to rely on the Responsible Individual to exercise such powers and authority.)

3. *Investments.* All contributions to the Custodial Account shall be invested and reinvested in full and fractional shares of Northeast Investors Trust. All such shares shall be held as book entry shares, and no physical shares or share certificates will be held in the Custodial Account. Such investments shall initially be made in such proportions and/or in such amounts as are specified in the Adoption Agreement or by other written notice to the Service Company (in such form as may be acceptable to the Service Company) may direct.

. If any directions or other orders by the Designated Beneficiary with respect to the sale or purchase of shares of the Fund are unclear or incomplete in the opinion of the Service Company, the Service Company will refrain from carrying out such investment directions or from executing any such sale or purchase, without liability for loss of income or for appreciation or for depreciation of any asset, pending receipt of clarification or completion from the Designated Beneficiary.

All initial investment directions by the Depositor or subsequent investment directions by the Designated Beneficiary will be subject to any minimum initial or additional investment or minimum balance rules applicable to the Fund as described in its prospectus.

All dividends and capital gains or other distributions received on the shares of the Fund shall be reinvested in full and fractional shares of the Fund.

If the Fund held in the Custodial Account is liquidated or is otherwise made unavailable by the Sponsor as a permissible investment for a Custodial Account hereunder, the liquidation or other proceeds of the Fund shall be invested in accordance with the instructions of the Designated Beneficiary. If the Designated Beneficiary does not give such instructions, or if such instructions are unclear or incomplete in the opinion of the Service Company, the Service

Company may invest such liquidation or other proceeds in such other Fund (including a money market fund if available) as the Sponsor designates, provided that the Sponsor gives at least thirty (30) days advance written notice to the Depositor and the Service Provider. In such case, neither the Service Company nor the Custodian will have any responsibility for such investment.

4. Transaction pricing. Any purchase or redemption of shares of the Fund for or from the Custodial Account will be effected at the public offering price or net asset value of the Fund (as described in the then effective prospectus for the Fund) next established after the Service Company has transmitted the Designated Beneficiary's investment directions to the transfer agent for the Fund.

Any purchase, transfer or redemption of shares of the Fund for or from the Custodial Account will be subject to any applicable sales, redemption or other charge as described in the then effective prospectus for the Fund.

5 Recordkeeping. The Service Company shall maintain adequate records of all purchases or sales of shares of the Fund for the Designated Beneficiary's Custodial Account. Any Custodial Account maintained in connection herewith shall be in the name of the Custodian for the benefit of the Designated Beneficiary. All assets of the Custodial Account shall be registered in the name of the Custodian or of a suitable nominee. The books and records of the Custodian shall show that all such investments are part of the Custodial Account.

The Custodian shall maintain or cause to be maintained adequate records reflecting transactions of the Custodial Account. In the discretion of the Custodian, records maintained by the Service Company with respect to the Custodial Account hereunder will be deemed to satisfy the Custodian's recordkeeping responsibilities therefor. The Service Company agrees to furnish the Custodian with any information the Custodian requires to carry out the Custodian's recordkeeping responsibilities.

6. Allocation of Responsibility. Neither the Custodian nor any other party providing services to the Custodial Account will have any responsibility for rendering advice with respect to the investment and reinvestment of the Custodial Account, nor shall such parties be liable for any loss or diminution in value which results from the Depositor's initial or the Designated Beneficiary's subsequent exercise of investment control over the Custodial Account. Depositor will have and exercise exclusive responsibility for the initial investment of the assets of the Custodial Account. Thereafter Designated Beneficiary or Responsible Individual, if so elected in the Adoption Agreement, shall have and exercise exclusive responsibility for and control over the investment of the assets of the Custodial Account. Neither Custodian nor any other party shall have any duty to question directions in that regard or to advise regarding the purchase, retention or sale of shares of the Fund for the Custodial Account.

7. (a) Responsibility for Distributions. Distribution of the assets of the Custodial Account shall be made at such time and to such person or entity as the Designated Beneficiary shall elect by written order to the Custodian. The Designated Beneficiary will be responsible for (and the Custodian will have no responsibility for) reporting and including any distribution from the Custodial Account in the gross income of the Designated Beneficiary in a manner consistent with the requirements of Code Section 72 and Code Section 530 (which sections provide that distributions shall be considered to consist partly of principal contributions and partly of earnings and appreciation (or depreciation) in value) and any other applicable Code requirements.

In general, the portion of a withdrawal considered to be principal is not subject to income tax, and the portion considered to be earnings and appreciation is generally subject to income tax and a potential penalty tax unless such withdrawal is used to pay the qualified education expenses of the Designated Beneficiary (as defined in Code Section 530) and such qualified education expenses for the tax year are not less than the aggregate withdrawals from the Custodial Account during the tax year. In addition, such Code sections provide that, if the aggregate withdrawals exceed the qualified education expenses for the Designated Beneficiary for that year, the amount that must be included as income for tax purposes is determined by first determining the ratio that the qualified education expenses bear to the actual withdrawal. The portion of the withdrawal that is potentially subject to taxation - the

amount of earnings or appreciation - is then multiplied by that percentage amount. The resultant sum is the amount excludable from income.

Notwithstanding the foregoing general information about the tax treatment of distributions from the Custodial Account, the Designated Beneficiary will be responsible for properly reporting and, to the extent applicable, paying income taxes or applicable penalties on, any distribution from the Custodial Account.

(b) Taxability of distributions. Designated Beneficiary acknowledges that any distribution of a taxable amount from the Custodial Account (except for distributions specified in Code Section 530, including distribution on account of Designated Beneficiary's disability or death, return of an "excess contribution" referred to in Code Section 530(d)(4)(C), a "rollover" from this Custodial Account, or distributions made on account of a qualified scholarship, allowance or payment described in Code section 25A(g)(2)), may subject Designated Beneficiary to an additional tax on distributions under Code Section 530(d)(4). For these purposes, Designated Beneficiary will be considered disabled if Designated Beneficiary can prove, as provided in Code Section 72(m)(7), that Designated Beneficiary is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or be of long-continued and indefinite duration. Neither the Custodian nor any other party providing services to the Custodial Account assumes any responsibility for monitoring or approving the purposes for which such distributions are used, nor for the tax treatment accorded any distribution from the Custodial Account; such responsibility rests solely with the person ordering or receiving the distribution.

(c) Distribution requirements at age 30. Any balance remaining in the Custodial Account when the Designated Beneficiary attains age 30 is, pursuant to Code Section 530, to be distributed to the Designated Beneficiary. The Designated Beneficiary has the responsibility to notify the Custodian to make such distribution and the Designated Beneficiary will be responsible for any tax consequences of not so directing the Custodian. However, the Custodian may, based upon its records, make a distribution to the Designated Beneficiary upon the Designated Beneficiary's attaining age 30, and/or the Custodian may report the balance in the Custodial Account at such time as a "deemed distribution" and thereafter maintain the Custodial Account as a taxable account (not an Education Savings Account), and/or the Custodian may take any other action required by law or by the IRS, and the Custodian will have no responsibility for any of the foregoing actions. This Section 7(c) shall not apply if the Designated Beneficiary is a Special Needs Student. The Custodian may rely on any statement or certification (in the Adoption Agreement or other writing) filed with the Sponsor or Custodian to the effect that the Designated Beneficiary is a Special Needs Student.

(d) Death of Designated Beneficiary. Upon the death of the Designated Beneficiary, if a member of the Designated Beneficiary's family (as defined in Code Section 529) who is under age 30 at the time of the Designated Beneficiary's death or a Special Needs Student is the Death Beneficiary for the Custodial Account, the Custodial Account will continue to be maintained as an Education Savings Custodial Account for the benefit of the Death Beneficiary (who thereupon will be entitled to be treated as the Designated Beneficiary hereunder; and, upon proper notification to the Custodian of the original Designated Beneficiary's death, the Custodian will treat the Death Beneficiary as the Designated Beneficiary for purposes of administering the Custodial Account). If the Death Beneficiary at the time of the Designated Beneficiary's death is not a family member of the Designated Beneficiary who is either under age 30 or a Special Needs Student, the Death Beneficiary will be entitled to receive the remaining balance in the Custodial Account and any withdrawal by such Designated Beneficiary will be a taxable distribution (and reported as such by the Custodian in accordance with applicable regulations). If not withdrawn by the Death Beneficiary within 30 days after the Designated Beneficiary's death, the balance in the Custodial Account will be reported by the Custodian as a "deemed distribution" to the Death Beneficiary in accordance with applicable regulations, and the Custodian may thereafter maintain the Custodial Account as a taxable account (not an Education Savings Account). If there is no Death Beneficiary, any balance remaining in the Custodial Account will be distributed to the Designated Beneficiary's estate in the manner required by Code Section 530, and the Custodian will have no responsibility for making such a distribution, or for not making such distribution in the absence of instructions to do so from the legal representative of the Designated Beneficiary's estate, and/or the Custodian may report the balance in the Designated Beneficiary's Custodial Account at death as a "deemed distribution" and thereafter maintain the Custodial Account as a taxable account, and the Custodian will have no responsibility for so doing.

The Responsible Individual (in the event the deceased Designated Beneficiary was a minor at the time of death) or the executor or other representative of the Designated Beneficiary's estate (if the deceased Designated Beneficiary was not a minor at the time of death) has the responsibility to notify the Sponsor of the Designated Beneficiary's death as soon as practicable.

In the event that the Custodian continues to maintain the Custodial Account as an Education Savings Account for the benefit of the Designated Beneficiary under the first sentence of this paragraph (d) above, the deceased Designated Beneficiary's Responsible Individual will continue to be the Responsible Individual for purposes of the Custodial Account and to discharge the rights and responsibilities of the Designated Beneficiary hereunder until the Designated Beneficiary (as the new Designated Beneficiary for the Custodial Account) reaches the age of majority in the state of his or her residence and notifies the Custodian in accordance with this Agreement that the Designated Beneficiary is assuming control of the Custodial Account. However, the Responsible Individual may in writing to Custodian designate a new Responsible Individual, providing such information concerning a new Responsible Individual and such acceptance of designation by the new Responsible Individual as the Custodian may request, the Custodian will thereupon treat the new Responsible Individual as the Responsible Individual for purposes of administration of the Custodial Account.

8. *Distribution instructions.* The Custodian shall have no duty to notify the Responsible Individual or any other individual, and shall have no liability with respect to any adverse consequence (including, but not limited to, taxes and/ or penalties), resulting from the Responsible Individual's failure to timely provide the Custodian with the required or requested notifications or instructions. The Custodian may make distribution to the Student upon his or her written order containing such information as the Custodian may reasonably request (provided that the Custodian may make distributions on its own initiative to the extent specifically provided for in Section 7 of this Article X). Also, before making any distribution or honoring any assignment of the Custodial Account, Custodian shall be furnished with any and all applications, certificates, tax waivers, signature guarantees and other documents (including proof of any legal representative's authority) deemed necessary or advisable by Custodian, but Custodian shall not be responsible for complying with any order or instruction which appears on its face to be genuine, or for refusing to comply if not satisfied it is genuine and in good order, and Custodian has no duty of further inquiry. Any distributions from the Custodial Account may be mailed, first-class postage prepaid, to the last known address of the person or entity who is to receive such distribution, as shown on the Custodian's records, and such distribution shall to the extent thereof completely discharge the Custodian's liability for such payment.

9. *Tax reporting responsibilities.*

(a) The Designated Beneficiary agrees to provide information to the Custodian at such time and in such manner as may be necessary for the Custodian to prepare any reports required under Section 530(h) or other provision of the Code.

(b) The Custodian or the Service Company will submit reports to the Internal Revenue Service and the Designated Beneficiary at such time and manner and containing such information as is prescribed by the Internal Revenue Service.

(c) The Designated Beneficiary, Custodian and Service Company shall furnish to each other such information relevant to the Custodial Account as may be required under the Code and any regulations issued or forms adopted by the Internal Revenue Service thereunder or as may otherwise be necessary for the administration of the Custodial Account.

(d) The Designated Beneficiary and/or the Depositor shall file any reports to the Internal Revenue Service which are required of either of them by law, and neither the Custodian nor Service Company shall have any duty to advise either concerning the filing or monitor either's compliance with such requirement.

10. Amendments.

(e) Designated Beneficiary retains the right to amend this Custodial Account document in any respect at any time, effective on a stated date which shall be at least 60 days after giving written notice of the amendment (including its exact terms) to Custodian by registered or certified mail, unless Custodian waives notice as to such amendment. If the Custodian does not wish to continue serving as such under this Custodial Account document as so amended, it may resign in accordance with Section 14 below.

(f) Designated Beneficiary delegates to the Custodian the Designated Beneficiary's right so to amend, provided (i) the Custodian does not change the investments available under the Custodial Agreement (other than an amendment to reflect any change in the Fund available hereunder made by the Sponsor) and (ii) the Custodian amends in the same manner all agreements comparable to this one, having the same Custodian, permitting comparable investments, and under which such power has been delegated to it; this includes the power to amend retroactively if necessary or appropriate in the opinion of the Custodian in order to conform this Custodial Account to pertinent provisions of the Code and other laws or successor provisions of law, or to obtain a governmental ruling that such requirements are met, to adopt a prototype or master form of agreement in substitution for this Agreement, or as otherwise may be advisable in the opinion of the Custodian. Such an amendment by the Custodian shall be communicated in writing to Designated Beneficiary, and Designated Beneficiary shall be deemed to have consented thereto unless, within 30 days after such communication to Designated Beneficiary is mailed, Designated Beneficiary either (i) gives Custodian a written order for a complete distribution or transfer of the Custodial Account, or (ii) removes the Custodian and appoints a successor under Section 14 below.

Pending the adoption of any amendment necessary or desirable to conform this Custodial Account document to the requirements of the Code, or any amendment thereto or to any applicable provision of the regulations or rulings thereunder, the Custodian and the Service Company may operate the Designated Beneficiary's Custodial Account in accordance with such requirements to the extent that the Custodian and/or the Service Company deem necessary to preserve the tax benefits of the Custodial Account or otherwise necessary to meet all legal requirements, and the Custodian and/or Service Company shall have no liability for so doing.

(g) Notwithstanding the provisions of subsections (a) and (b) above, no amendment shall increase the responsibilities or duties of Custodian without its prior written consent.

(h) This Section 10 shall not be construed to restrict the Custodian's right to substitute fee schedules in the manner provided by Section 13 below, and no such substitution shall be deemed to be an amendment of this Agreement.

11. Terminations

(i) This Agreement shall terminate and have no further force and effect upon a complete distribution of the Custodial Account to the Designated Beneficiary (or his or her Beneficiaries) or to a successor custodian or trustee in accordance with the instructions provided to the Custodian by the Designated Beneficiary. In addition, the Sponsor shall have the right to terminate this Agreement and instruct the Custodian to distribute the Custodial Account upon thirty (30) days' notice to the Custodian and the Designated Beneficiary (or his or her Beneficiaries if the Designated Beneficiary is deceased). In the event of such termination by the Sponsor, the Custodian shall transfer the entire amount in the Custodial Account to a successor custodian or trustee as the Designated Beneficiary (or his or her Beneficiaries) shall instruct or shall distribute the Custodial Account to the Designated Beneficiary (or his or her Beneficiaries) if so directed. If, at the end of such thirty (30) day period, the Designated Beneficiary (or his or her Beneficiaries) has not directed the Custodian to transfer or distribute the amount in the Custodial Account as described above then the Designated Beneficiary (or his or her Beneficiaries) will be deemed to have directed the Custodian to distribute any amount remaining in the Custodial Account to (i) the Designated Beneficiary (or to his or her Beneficiaries as their interests shall appear on file with the Sponsor) or, (ii) if the Designated Beneficiary is deceased with no Beneficiaries on file with the Sponsor, then to the Designated Beneficiary's estate, subject to the Custodian's right to reserve funds as provided in Section 14(b). The Sponsor and the Custodian will be fully protected in making any and all such distributions pursuant to this Section 11(a). The Designated Beneficiary (or his or her Beneficiaries) shall be fully responsible for any taxes due on such distribution.

(j) Sections 12(f), 14(b) and 14(c) hereof shall survive the termination of the Custodial Account and this document, and Custodian shall be relieved from all further liability hereunder or with respect to the Custodial Account and all assets thereof so distributed.

12. Responsibilities of Custodian and service providers

(k) In its discretion, the Custodian may appoint one or more contractors or service providers to carry out any of its functions and may compensate them from the Custodial Account for expenses attendant to those functions.

(l) The Service Company shall be responsible for receiving all instructions, notices, forms and remittances from Designated Beneficiary and for dealing with or forwarding the same to the transfer agent for the Fund.

(m) The parties do not intend to confer any fiduciary duties on Custodian or Service Company (or any other party providing services to the Custodial Account), and none shall be implied. Neither shall be liable (or assumes any responsibility) for the collection of contributions, the proper amount, time or tax treatment of any contribution to the Custodial Account or the propriety of any contributions under this Agreement, or the purpose, time, amount (including any required distribution amounts), tax treatment or propriety of any distribution hereunder, which matters are the sole responsibility of Designated Beneficiary.

(n) Not later than 60 days after the close of each calendar year (or after the Custodian's resignation or removal), the Custodian or Service Company shall file with Designated Beneficiary a written report or reports reflecting the transactions effected by it during such period and the assets of the Custodial Account at its close. Upon the expiration of 60 days after such a report is sent to Designated Beneficiary, the Custodian or Service Company shall be forever released and discharged from all liability and accountability to anyone with respect to transactions shown in or reflected by such report except with respect to any such acts or transactions as to which Designated Beneficiary shall have filed written objections with the Custodian or Service Company within such 60-day period.

(o) The Service Company shall deliver, or cause to be delivered, to Designated Beneficiary all notices, prospectuses, financial statements and other reports to shareholders, proxies and proxy soliciting materials relating to the shares of the Funds credited to the Custodial Account. No shares shall be voted, and no other action shall be taken pursuant to such documents, except upon receipt of adequate written instructions from Designated Beneficiary.

(p) Designated Beneficiary and Responsible Individual shall always fully indemnify Service Company, Sponsor, Distributor, the Fund and Custodian, and shall defend and save them harmless from any and all liability whatsoever which may arise either (i) in connection with this Agreement and the matters which it contemplates, except that which arises directly out of the Service Company's, Distributor's, Fund's, Sponsor's or Custodian's bad faith, gross negligence or willful misconduct, (ii) with respect to making or failing to make any distribution, other than for failure to make distribution in accordance with an order therefor which is in good order and in full compliance with Section 7, or (iii) actions taken or omitted in good faith by such parties. Neither Service Company nor Custodian shall be obligated or expected to commence or defend any legal action or proceeding in connection with this Agreement or such matters unless agreed upon by that party and Designated Beneficiary, and unless fully indemnified for so doing to that party's satisfaction. The Custodian's acceptance of the contributions to this Custodial Account is expressly conditioned upon Responsible Individual's and Designated Beneficiary's agreement with the foregoing, and with all other provisions of this Agreement. Exercise of any right, duty or responsibility by Responsible Individual (or Designated Beneficiary, as the case may be) in connection with the Designated Beneficiary's Custodial Account shall be deemed to constitute acceptance of this condition.

(q) The Custodian and Service Company shall each be responsible solely for performance of those duties expressly assigned to it in this Agreement, and neither assumes any responsibility as to duties assigned to anyone else hereunder or by operation of law.

(r) The Custodian and Service Company may each conclusively rely upon and shall be protected in acting upon any written order from Designated Beneficiary, or any other notice, request, consent, certificate or other

instrument or paper believed by it to be genuine and to have been properly executed, and so long as it acts in good faith, in taking or omitting to take any other action in reliance thereon. In addition, Custodian will carry out the requirements of any apparently valid court order relating to the Custodial Account and will incur no liability or responsibility for so doing.

### 13. Fees and Expenses.

(s) The Custodian or its designee, in consideration of its services under this Agreement, shall receive the fees specified on the applicable fee schedule. The fee schedule originally applicable shall be the one specified in the Adoption Agreement or Disclosure Statement, as applicable. The Custodian may substitute a different fee schedule at any time upon 30 days' written notice to Designated Beneficiary. The Custodian, or its designee, shall also receive reasonable fees for any services not contemplated by any applicable fee schedule and either deemed by it to be necessary or desirable or requested by Designated Beneficiary.

(t) Any income, gift, estate and inheritance taxes and other taxes of any kind whatsoever, including transfer taxes incurred in connection with the investment or reinvestment of the assets of the Custodial Account, that may be levied or assessed in respect to such assets, and all other administrative expenses incurred by the Custodian in the performance of its duties (including fees for legal services rendered to it in connection with the Custodial Account) shall be charged to the Custodial Account. If the Custodian is required to pay any such amount, the Designated Beneficiary shall promptly upon notice thereof reimburse the Custodian.

(u) All such fees and taxes and other administrative expenses charged to the Custodial Account shall be collected either from the amount of any contribution or distribution to or from the Custodial Account, or (at the option of the person entitled to collect such amounts) to the extent possible under the circumstances by the conversion into cash of sufficient shares of the Fund held in the Custodial Account (without liability for any loss incurred thereby). Notwithstanding the foregoing, the Custodian or Service Company may make demand upon the Designated Beneficiary for payment of the amount of such fees, taxes and other administrative expenses. Fees which remain outstanding after 60 days may be subject to a collection charge.

### 14. Resignation or Replacement of Custodian.

(v) Upon 90 days' prior written notice to the Custodian, Designated Beneficiary or Sponsor, as the case may be, may remove it from its office hereunder. Such notice, to be effective, shall designate a successor custodian and shall be accompanied by the successor's written acceptance. The Custodian also may, but is not required to, at any time resign upon 90 days' prior written notice to Sponsor, whereupon Sponsor shall notify the Designated Beneficiary, and shall appoint a successor to the Custodian. In connection with its removal or resignation hereunder, the Custodian may, but is not required to, designate a successor custodian by written notice to the Designated Beneficiary or Sponsor, if neither the Sponsor nor Designated Beneficiary (or Death Beneficiary) designate a successor custodian, and the Designated Beneficiary or Sponsor will be deemed to have consented to such successor unless the Designated Beneficiary or Sponsor designates a different successor custodian and provides written notice thereof together with such different successor's written acceptance by such date as the Custodian specifies in its original notice to the Designated Beneficiary or Sponsor (provided that the Designated Beneficiary will have a minimum 30 days to designate a different successor).

(w) The successor custodian shall be a bank, insured credit union, or other person satisfactory to the Secretary of the Treasury under Code Section 530(b)(1)(B). Upon receipt by Custodian of written acceptance by its successor of such successor's appointment, Custodian shall transfer and pay over to such successor the assets of the Custodial Account and all records (or copies thereof) of Custodian pertaining thereto, provided that the successor custodian agrees not to dispose of any such records without the Custodian's consent. Custodian is authorized, however, to reserve such sum of money or property as it may deem advisable for payment of all its fees, compensation, costs, and expenses, or for payment of any other liabilities constituting a charge on or against the assets of the Custodial Account or on or against the Custodian, with any balance of such reserve remaining after the payment of all such items to be paid over to the successor custodian.



(x) No custodian shall be liable for the acts or omissions of its predecessor or its successor.

15. Applicable Code. References herein to the "Internal Revenue Code" or "Code" and sections thereof shall mean the same as amended from time to time, including successors to such sections.

16. Delivery of notices. Except where otherwise specifically required in this Agreement, any notice from Custodian to any person provided for in this Agreement shall be effective if sent by first-class mail to such person at that person's last address on the Custodian's records.

17. Exclusive benefit. Designated Beneficiary shall not have the right or power to anticipate any part of the Custodial Account or to sell, assign, transfer, pledge or hypothecate any part thereof. The Custodial Account shall not be liable for the debts of Designated Beneficiary or subject to any seizure, attachment, execution or other legal process in respect thereof except to the extent required by law. At no time shall it be possible for any part of the assets of the Custodial Account to be used for or diverted to purposes other than for the exclusive benefit of the Designated Beneficiary except to the extent required by law.

18. Applicable law/Interpretation. When accepted by the Custodian, this Agreement is accepted in and shall be construed and administered in accordance with the laws of the state where the principal office of the Custodian is located. Any action involving the Custodian brought by any other party must be brought in such state.

This Agreement is intended to qualify under Code Section 530 as an Education Savings Account and to entitle Designated Beneficiary to the tax benefits thereof, and if any provision hereof is subject to more than one interpretation or any term used herein is subject to more than one construction, such ambiguity shall be resolved in favor of that interpretation or construction which is consistent with that intent.

However, the Custodian shall not be responsible for whether or not such intentions are achieved through use of this Agreement, and Designated Beneficiary is referred to Designated Beneficiary's attorney for any such assurances.

19. Professional advice. Designated Beneficiary (or Depositor) should seek advice from Designated Beneficiary's (or Depositor's) attorney regarding the legal consequences (including but not limited to federal and state tax matters) of entering into this Agreement, making contributions to the Custodial Account, and ordering Custodian to make distributions from the Custodial Account. Designated Beneficiary (and Depositor) acknowledges that Custodian, Sponsor and Service Company (and any company associated therewith) are prohibited by law from rendering such advice.

20. Definition of written notice. If any provision of any document governing the Custodial Account provides for notice, instructions or other communication from one party to another in writing, to the extent provided for in the procedures of the Custodian, Service Company or another party, any such notice, instructions or other communications may be given by telephonic, computer, other electronic or other means, and the requirement for written notice will be deemed satisfied.

21. Governing documents. This Agreement and the Adoption Agreement signed by Designated Beneficiary or Depositor (as either may be amended) are the documents governing the Designated Beneficiary's Custodial Account. Articles I through IX are in the form promulgated by the Internal Revenue Service in Form 5305-EA for use in establishing and maintaining an Education Savings Account under Code Section 530. If the Internal Revenue Service amends such form, the Custodian will amend this Agreement accordingly, and the Designated Beneficiary specifically consents to such amendment in accordance with Section 10(b) hereof. In addition, if there is any change in the legal requirements applicable to Education Savings Accounts, pending the adoption by the Internal Revenue Service of a revised Form 5305-EA, the Custodial Account may be operated in accordance with such changed legal requirements, notwithstanding that such operation may be in conflict with the unrevised version of Form 5305-EA.

22. Representations by Depositor and/or Designated Beneficiary. The Depositor and/or Designated Beneficiary acknowledges that he or she has received and read the current prospectus for the Fund in which the Custodial Account is invested and the Education Savings Custodial Account Disclosure Statement related to the Custodial Account. The

Depositor and Designated Beneficiary each represent under penalties of perjury that his or her Social Security number (or other Taxpayer Identification Number) as stated in the Adoption Agreement is correct.

## **INSTRUCTIONS & FORMS**

### **HOW TO OPEN A NEW EDUCATION SAVINGS ACCOUNT**

To open a Northeast Investors Education Savings Account, the Depositor should complete and sign the enclosed Education Savings Account Adoption Agreement form. The Depositor should also check the box in Section V of the Custodial Agreement, if applicable. The Responsible Individual should also sign the Adoption Agreement, where indicated. Please make sure that sections 1 through 6 of the Adoption Agreement are completed, and that the Depositor and the Responsible Individual have signed in section 7.

Note: Generally, anyone who has reached the age of majority may be a Depositor (as long as the Depositor's modified adjusted gross income does not exceed the limits--see the Disclosure Statement), including the person who will be the Designated Beneficiary or the Responsible Individual. However, a Depositor -- even if he or she has not attained the age of majority -- may establish an Education Savings Account for his or her own benefit.

The Designated Beneficiary must be an individual who is alive at the time the Education Savings Account is established (in other words, Education Savings Accounts cannot be established for children who are not yet born or for groups of individuals). If the Designated Beneficiary is a minor (this will usually be the case with a contributory Education Savings Account), a parent or guardian must be designated as Responsible Individual. If the Designated Beneficiary has reached the age of majority in his or her state of residence (usually this will be the case only with a rollover Education Savings Account, although it could happen if the age of majority in the Designated Beneficiary's state residence is under 18 or if the Designated Beneficiary is a Special Needs Student). The Designated Beneficiary may also be designated as the Responsible Individual by checking the appropriate box on the Adoption Agreement.

Return the completed and signed Education Savings Account Adoption Agreement form along with either a check for the initial contribution.

A minimum of \$500 is required to open an Education Savings Account. Anytime thereafter additional contributions may be made to the Northeast Investors Trust Education Savings Account by any Depositor, as long as the limits on contributions are not exceeded.

For further information regarding the contribution rules, please see the annual contribution section herein.

### **HOW TO OPEN A ROLLOVER EDUCATION SAVINGS ACCOUNT**

The Responsible Individual may rollover or transfer all or part of an Education Savings Account to a Northeast Investors Trust Education Savings Account established for the benefit of the Designated Beneficiary of the original Education Savings Account or for a member of his or her family. For these purposes, members of the Designated Beneficiary's family include the following who are under 30 years old (or a Special Needs Student) at the time of the rollover or transfer: (a) the Designated Beneficiary's spouse, (b) the Designated Beneficiary's children and their descendants, stepchildren and their descendants, siblings and their children, parents, grandparents, stepparents, and spouses of all of these individuals, and (c) the Designated Beneficiary's first cousins.

Also, if the Depositor has elected on the Adoption Agreement to permit it, the Responsible Individual may simply designate another eligible member of the original Designated Beneficiary's family (as described above) to be the new Designated Beneficiary for the Education Savings Account.

To open a Rollover Education Savings Account, complete the Adoption Agreement, indicating that a Rollover Education Savings Account is being established.

For further information regarding rollovers, please see the rollover section herein.

**SUMMARY:**

- ① For a new or rolled over Education Savings Account, complete the Adoption Agreement with sections 1 through 6 completed and section 7 signed by the Depositor and Responsible Individual. Check the box in Article V of the Custodial Agreement, if applicable.
- ② For any contribution to be made by a direct transfer from the custodian of a pre-existing Education Savings Account, complete and return the Adoption Agreement and Direct Transfer to Education Savings Account Form. More forms are available from Northeast Investors Trust.
- ③ If the annual maintenance fee is being paid by check, a check in the amount of \$10.00 should be enclosed for each Education Savings Account established.
- ④ ALL CHECKS SHOULD BE MADE PAYABLE TO: Northeast Investors Trust.
- ⑤ SEND ALL COMPLETED FORMS, CHECKS AND ANY OTHER CORRESPONDENCE TO:

Northeast Investors Trust  
125 High Street  
Boston, MA 02110

- ⑥ RETAIN A PHOTOCOPY OF THE COMPLETED FORM(S) FOR YOUR RECORDS.

# NORTHEAST INVESTORS TRUST EDUCATION SAVINGS ADOPTION AGREEMENT

## IMPORTANT INFORMATION ABOUT PROCEDURES FOR OPENING A NEW ACCOUNT

To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each person who opens an account.

**What this means for you:** When you open an account, we ask for your name, address, date of birth, social security number and other information that will allow us to identify you. Until you provide the requested information and we have verified your Identity, we will be unable to open an account for you or to effect any transaction on your behalf.

Escheatment - Your property may be transferred to the appropriate state (i.e., escheated) if no activity occurs in the account within the time period specified by state law. For more details, consult your state's website, or call your state government's escheatment customer service number.

### 1 Account Registration

#### **Designated Beneficiary**

**Special Needs Student** (check if applicable)

First Name Middle Initial Last Name

Social Security Number Date of Birth Daytime Telephone Number

Street Address Apartment or Box Number Evening Telephone Number

Mailing Address (if different from above)

City State Zip Code

Email address

#### **Responsible Individual**

Same as Designated Beneficiary (Do not complete this section.)

**Parent information:**  **Mother**  **Father**  **Guardian** (If guardian, include proof of guardianship)

First Name Middle Initial Last Name

Social Security Number Date of Birth Daytime Telephone Number

Street Address Apartment or Box Number Evening Telephone Number

Mailing Address (if different from above)

City State Zip Code

Email address

#### **Depositor**

**Corporate or Other Entity** (check if applicable )

First Name Middle Initial Last Name

Social Security Number/Tax Identification Number Date of Birth Daytime Telephone Number

Street Address Apartment or Box Number Evening Telephone Number

Mailing Address (if different from above)

City State Zip Code

Email Address

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## 2 Type and Amount of Investment

Please indicate the type of Education Savings Account contribution being made by checking the correct box and by writing the amount of the contribution which should be invested. All contribution checks should be made payable to Northeast Investors Trust. The minimum initial investment is \$500.

- Annual Contribution of \$\_\_\_\_\_ for \_\_\_\_\_ Tax Year (\$2,000 maximum contribution per year.)**
- Rollover of another Education Savings Account of \$\_\_\_\_\_**  
Rollover within 60 days after withdrawing from prior Education Savings Account. No other rollover from the prior Account or of same assets occurred with last 12 months. The Designated Beneficiary of this Account is under 30 or a Special Needs Student and is either the same person as of a family member (as defined by Section 529(e)(2)) of the Internal Revenue Code) of the designated beneficiary of the prior Education Savings Account.
- Transfer of Education Savings Account of \$\_\_\_\_\_**  
Complete, sign, and enclose the Direct Transfer to Education Savings Account Form.

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## Death Beneficiary

- Use this section to name a death beneficiary in the event the original Designated Beneficiary dies before the entire Account balance has been withdrawn. An alternate death beneficiary may also be named if desired. If a death beneficiary is not named for the Account, any amount remaining in the Account upon the original Designated Beneficiary's death will go to his or her estate. Consult a qualified professional for advice concerning any tax or estate planning consequences. See the Northeast Investors Trust Education Account Disclosure Statement for important information about naming a death beneficiary for the Account (including information about the circumstances in which the Account may continue to be maintained as an Education Savings Account for the benefit of the named death beneficiary). The Responsible Individual may change the death beneficiary named below at any time by filing a new form with the custodian. Any such later form will revoke all prior named death beneficiaries.

Primary Death Beneficiary:

\_\_\_\_\_  
Name Social Security Number

\_\_\_\_\_  
Address

\_\_\_\_\_  
Relationship to original Designated Beneficiary Date of Birth

Alternate Death Beneficiary:

\_\_\_\_\_  
Name Social Security Number

\_\_\_\_\_  
Address

\_\_\_\_\_  
Relationship to original Designated Beneficiary Date of Birth

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#### **4 Change Designated Beneficiary**

- Change the Designated Beneficiary of the existing Northeast Investors Trust Education Savings Account. The existing Education Savings Account number is \_\_\_\_\_.** The new Designated Beneficiary is the person specified in Part 1 of this Adoption Agreement Form. (Note: Available only if existing Education Savings Account permits change of Designated Beneficiary. New Designated Beneficiary must be under 30 or a Special Needs Student and must also be a family member, as defined in Code Section 529(3), or the prior Designated Beneficiary. The relationship of the new Designated Beneficiary to the prior Designated Beneficiary is \_\_\_\_\_.)

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#### **5 Account Options (Depositor should check one or both if desired)**

- CONTROL OF ACCOUNT.** Check this box (and the box in Article V of the Custodial Agreement) to provide that the Responsible Individual named in Section 1 will continue to serve as the “Responsible Individual” with power to control the investments and administration of the Account even after the Designated Beneficiary has attained the age of majority. If this box is not checked, upon obtaining the age of majority, the Designated Beneficiary may notify the custodian that the Designated Beneficiary is assuming the power to control the investments and to administration of the Account. (If the box is checked, Responsible Individual’s control shall terminate only after all of the assets of the Custodial Account have been distributed and the Account terminates. Note: If the Responsible Individual dies or becomes incapacitated after the Designated Beneficiary reaches the age of majority, then the Designated Beneficiary shall become the Responsible Individual.)

**NOTE: LEAVE THIS BOX BLANK IF YOU WANT THE DESIGNATED BENEFICIARY TO HAVE THE RIGHT TO ASSUME CONTROL OF THE ACCOUNT UPON REACHING THE AGE OF MAJORITY.**

- POWER TO CHANGE DESIGNATED BENEFICIARY.** Check this box to provide that the Responsible Individual MAY NOT change the beneficiary designated for this Custodial Account to another member of the original Designated Beneficiary’s family. Otherwise, the Responsible Individual will have the power to change the Account beneficiary to another member of the original Designated Beneficiary’s family.

**NOTE: LEAVE THIS BOX BLANK IF YOU WANT THE RESPONSIBLE INDIVIDUAL TO HAVE THE POWER TO CHANGE THE DESIGNATED BENEFICIARY FOR THE ACCOUNT.**

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#### **6 Signatures and Certifications**

The undersigned hereby establish with the Custodian this Northeast Investors Trust Education Savings Account (the “Account”). We agree that the Account will be governed by the terms of this Adoption Agreement and the State Street Bank and Trust Company Education Savings Account Custodial Agreement (which is incorporated by reference). The Account established hereunder is designated as an Education Savings Account under Internal Revenue Code Section 530 for the benefit of the Designated Beneficiary identified in Section 1 above. We have received and read the Northeast Investors Trust Education Savings Account Disclosure Statement and the prospectus of the Northeast Investors Trust. We certify under penalties of perjury that the Social Security numbers provided above are correct, and that the other information provided in this Adoption Agreement is correct.

Further, the undersigned certify that: in the case of an annual contributions Education Savings Account, the Designated Beneficiary is less than 18 years old, or a Special Needs Student, and contributions made on the Designated Beneficiary’s behalf to this and all other Education savings Accounts in a single tax year do not exceed

\$2,000; in the case of a Rollover Education savings Account, the Designated Beneficiary is less than 30 years old, or a Special Needs Student and all assets transferred are the same assets received in a distribution being rolled over, no rollover from the prior Education Savings Account and no rollover of the same assets being rolled over now has been made within the one-year period immediately preceding the rollover, and the distribution being rolled over was received within 60 days of making this rollover. The Designated Beneficiary identified in Section 1 above is either the person for whom the prior Education Savings Account was established or a family member of such person (within the meaning of Internal Revenue Code section 529(e)(2). The Depositor certifies that he or she is at least the age of majority in his or her state of residence (not applicable if Depositor and Designated Beneficiary are the same person), acknowledges receipt of the Custodial Account Agreement and Disclosure Statement at least seven (7) days before the date of signature (as indicated below), and acknowledges that no further right of revocation exists.

\_\_\_\_\_  
Responsible Individual's Signature

\_\_\_\_\_  
Date

\_\_\_\_\_  
Depositor's Signature

\_\_\_\_\_  
Date

**Custodian Acceptance.** State Street Bank and Trust Company will accept appointment as Custodian of the Depositor's Account. However, this Agreement is not binding upon the Custodian until the Depositor has received a statement confirming the initial transaction for the Account. Receipt by the Depositor of a confirmation of the purchase of the Fund shares indicated above will serve as notification of State Street Bank and Trust Company's acceptance of appointment as Custodian of the Depositor's Account.

STATE STREET BANK AND TRUST COMPANY, CUSTODIAN



**NORTHEAST INVESTORS TRUST  
DIRECT TRANSFER TO EDUCATION SAVINGS ACCOUNT FORM**

**Instructions:**

To transfer amounts in an existing Education Savings Account with another custodian or trustee, complete this form and send it to Northeast Investors Trust. If the transfer is to a new Northeast Investors Education Savings Account, please complete, sign and enclose a Northeast Investors Trust Education Savings Account Adoption Agreement.

**IDENTIFY EXISTING EDUCATION SAVINGS ACCOUNT**

**To:**

\_\_\_\_\_  
Name of Current Trustee/Custodian

\_\_\_\_\_  
Address

\_\_\_\_\_  
City State Zip

\_\_\_\_\_  
Name of Contact Person

\_\_\_\_\_  
Telephone Number

**Re:**

\_\_\_\_\_  
Name of Existing Education Savings Account's Designated Beneficiary/Student

\_\_\_\_\_  
Account Number Social Security Number

\_\_\_\_\_  
Name of Existing Education Savings Account's Responsible Individual

\_\_\_\_\_  
Responsible Individual's Address

\_\_\_\_\_  
City State Zip

\_\_\_\_\_  
Responsible Individual's Telephone Number

**INSTRUCTIONS TO CURRENT TRUSTEE/CUSTODIAN**

Please transfer the following amount from the Education Savings Account established for the benefit of the Designated Beneficiary identified in Part 2 (payee and address directions are at the bottom of this form) to the Education Savings Account with Northeast Investors Trust as follows:

- Liquidate all assets and transfer the proceeds
- Liquidate \_\_\_\_\_ shares and transfer the proceeds
- Transfer \$ \_\_\_\_\_

**NORTHEAST INVESTORS EDUCATION SAVINGS ACCOUNT INFORMATION**

The name of the Designated Beneficiary for a new Northeast Investors Trust Education Savings Account is:

\_\_\_\_\_

Social Security Number

Date of Birth

To transfer accounts to an existing Education Savings Account with Northeast Investors Trust, please indicate the account number: \_\_\_\_\_

**CERTIFICATION AND SIGNATURE**

The undersigned certifies that the Designated Beneficiary of the Northeast Investors Trust Education Savings Account is under age 30 or a Special Needs Student and is a family member (as defined in Code Section 529(e)(2)) of the Designated Beneficiary of the transferring Education Savings Account.

Signature of Responsible Individual  
(of existing Education Savings Account)

Date

(Please ask your present trustee or custodian if a signature guarantee is required.) If required, the following signature guarantee should be completed. Your signature may be guaranteed by a bank, a member of a stock exchange, or other eligible guarantor. Notarizations are not acceptable.

\_\_\_\_\_  
Name of Bank or Firm

\_\_\_\_\_  
Signature of Authorized Officer or Signatory

\_\_\_\_\_  
Print name of Office or other Authorized Signatory and Title

***Below Line for Bank Use***

State Street Bank and Trust Company, as (successor) custodian of the Education Savings Account established for the benefit of the Designated Beneficiary identified in Part 4 above, requests the direct transfer of assets as indicated above. The Northeast Investors Trust Education Savings Account meets the requirements of Code Section 530 and is qualified to receive the transfer requested above.

State Street Bank and Trust Company, Custodian

\_\_\_\_\_  
Date:

\_\_\_\_\_  
By:

To Current Trustee/Custodian: Please return a copy of this form with your response. Make checks payable to Northeast Investors Trust. Address for checks, forms, etc.:

Northeast Investors Trust  
125 High Street  
Boston, MA 02110

If you have any questions please call 1-800-225-6704.

**NORTHEAST INVESTORS TRUST  
EDUCATION SAVINGS ACCOUNT WITHDRAWAL FORM**

**1 Designated Beneficiary Information**

Designated Beneficiary's Name	Designated Beneficiary's Social Security Number
Responsible Individual's Name	Responsible Individual's Social Security Number
Education Savings Account Number	

**2 Type of Withdrawal (Check One):**

**Note:** The principal contributions contained in the Education Savings Account are withdrawn tax- and penalty-free. Earnings and growth are considered income and are subject to normal income taxes and, in some cases, a 10% penalty tax unless the withdrawal is a Qualified Withdrawal. Income tax withholding currently does not apply to Education Savings Accounts.

<input type="checkbox"/>	Qualified Withdrawal	<p>The amount of the withdrawal requested will not exceed the qualified education expenses of the Designated Beneficiary incurred in the year the withdrawal is made. Qualified education expenses include: (i) amounts contributed to a qualified state tuition program for the benefit of the Designated Beneficiary, (ii) qualified higher education expenses, and (iii) qualified elementary and secondary school expenses. Qualified education expenses are described in more detail in the Northeast Investors Trust Education Savings Account Disclosure Statement.</p> <p><b>Caution:</b> If the taxable amount withdrawn exceeds the Designated Beneficiary's qualified education expenses in a year, the excess may be subject to taxation.</p>
<input type="checkbox"/>	Disability	<p>The Designated Beneficiary is disabled. Under the IRS rules, "disabled" means unable to engage in any substantial gainful activity by reason of a medically determinable physical or mental impairment which can be expected to be of long continued or indefinite duration or to result in death.</p>
<input type="checkbox"/>	Death	<p>The Designated Beneficiary has died. IRS rules require distribution of the total account balance to the Designated Beneficiary's estate within 30 days of the Designated Beneficiary's death (unless there is a proper death beneficiary or unless the account is validly transferred to another Education Savings Account – see the Northeast Investors Trust Education Savings Account Disclosure Statement for more information and consult a qualified tax advisor.</p>
<input type="checkbox"/>	Scholarship	<p>The amount of the withdrawal requested equals or is less than the amount of a scholarship or other tax-free education assistance the Designated Beneficiary receives during the year of the withdrawal.</p>

<input type="checkbox"/>	Required	The Designated Beneficiary has reached age 30. IRA rules require distribution of the total account balance within 30 days of the Designated Beneficiary's 30 <sup>th</sup> birthday, unless the Designated Beneficiary is a Special Needs Student. (However, before the Designated Beneficiary's 30 <sup>th</sup> birthday, the amount in the Account may be validly transferred to an Education Savings Account of another beneficiary who is a family member of the original Designated Beneficiary; see the Northeast Investors Trust Education Savings Account Disclosure Statement for additional information and consult a qualified tax advisor.)
<input type="checkbox"/>	Non- Qualified Withdrawal	None of the conditions above apply.

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### **3 Method of Withdrawal (Check One):**

- Total Withdrawal (Account Termination)
- Partial Withdrawal of \$\_\_\_\_\_

We recommend that you carefully consider the amount needed to cover qualified education expenses in the year in which the withdrawal occurs and to consult with your tax advisor. Once you have determined the desired dollar amount of the withdrawal, submit a completed Education Savings Account Withdrawal Authorization Form to us

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### **4 Certification and Signature:**

The undersigned, the Responsible Individual for this Account, authorizes the withdrawal specified above. The undersigned acknowledges that proper income tax reporting depends on the correct completion of this form and certifies that the box checked under Type of Withdrawal (above) is correct. The undersigned agrees to indemnify and hold harmless the custodian and its agents and service providers (including Northeast Investors Trust) from any expenses incurred if such information is not correct. The undersigned acknowledges that it is his/ her responsibility to calculate, report, and pay all taxes due with respect to the withdrawal specified above.

\_\_\_\_\_  
Responsible Individual\*\*

\_\_\_\_\_  
Date

\*\* For redemptions in excess of \$25,000, your signature must be guaranteed by a bank or trust company, securities broker or dealer, credit union, securities exchange or association, securities clearing agency or savings association. Notarizing or witnessing will not suffice. If required, the following signature guarantee should be completed. Your signature may be guaranteed by a bank, a member of a stock exchange, or other eligible guarantor. Notarizations are not acceptable.

\_\_\_\_\_  
Name of Bank or Firm

\_\_\_\_\_  
Signature of Authorized Officer or Signatory

\_\_\_\_\_  
Print name of Office or other Authorized Signatory and Title

**Note:** Please send this completed Northeast Investors Trust Education Savings Account Withdrawal Form and any related documents to the following address:

Northeast Investors Trust  
125 High Street  
Boston, MA 02110

If you have any questions please call us at 1-800-225-6704.

RETAIN A PHOTOCOPY OF THE COMPLETED FORM FOR YOUR RECORDS.

## **NORTHEAST INVESTORS TRUST PRIVACY POLICY STATEMENT**

Northeast Investors Trust recognizes and respects the privacy of its shareholders and to that end is committed to the following:

The Trust collects, retains and uses shareholder information for the purpose of administering its operations, providing shareholder service, and complying with legal and regulatory requirements. We do not sell, exchange or share shareholder information with outside organizations unless the third party is essential in administering our operations. For example, we work with our custodian bank, State Street Bank and Trust Company, to assist in providing payments to shareholders.

The Trust makes every effort to maintain the most up to date, complete and accurate shareholder and account information. If you believe any information is inaccurate please call us at 800-225-6704. We will investigate the problem, and if it is determined that the information is incorrect, we take appropriate action quickly according to industry practices and applicable law

Shareholder information is accessible only by authorized employees or as set forth below. Our employees are responsible to protect the confidentiality of shareholder information and are subject to appropriate disciplinary measures to enforce that responsibility.

The Trust maintains appropriate safeguards regarding shareholders information. This includes use of security procedures to prevent revealing shareholder information to inappropriate or unauthorized sources.

The Trust does not reveal specific information about shareholders or their accounts to unaffiliated third parties with the following exceptions:

1. If the shareholder requests it.
2. If the information is required by or a wed by law (for example, a subpoena or court order to produce records regarding the shareholder's account with the Trust). In such instances, information provided is limited to that required by the specific law.
3. If the information is required by a Trust auditor or examiner for the purpose of completing an audit or regulatory examination of the Trust.
4. To make available products or services, such as a computer programming services, but excluding marketing activities, that are offered by a third party who is under contract to provide these services. These companies or vendors must agree to respect the privacy of any shareholder information provided.

These policies also apply, to the extent applicable, to persons who visit our web site and provide us with any personal information other than their name, address and general area of investment interest.

# FACTS

## WHAT DOES STATE STREET BANK AND TRUST COMPANY (STATE STREET) DO WITH YOUR PERSONAL INFORMATION?

### Why?

Financial companies choose how they share your personal information. Federal law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share and protect your personal information. Please read this notice carefully to understand what we do.

### What?

The types of personal information we collect and share depend on the product or service you have with us. This information can include:

- Social Security number
- account balances
- account transactions
- payment history
- transaction history
- retirement assets.

When you are *no longer* our customer, we continue to share your information as described in this notice.

### How?

All financial companies need to share customers' personal information to run their everyday business. In the section below, we list the reasons financial companies can share their customers' personal information; the reasons State Street chooses to share and whether you can limit this sharing.

Reasons we can share your personal information	Does State Street share?	Can you limit this sharing?
<b>For our everyday business purposes</b> — such as to process your transactions, maintain your account(s), respond to court orders and legal investigations, or report to credit bureaus	Yes	No
<b>For our marketing purposes</b> — to offer our products and services to you	No	We don't share
<b>For joint marketing with other financial companies</b>	No	We don't share
<b>For our affiliates' everyday business purposes</b> — information about your transactions and experiences	No	We don't share
<b>For our affiliates' everyday business purposes</b> — information about your creditworthiness	No	We don't share
<b>For non-affiliates to market to you</b>	No	We don't share

### Questions?

Call 1 816-871-4100



## What we do

<p><b>How does State Street protect my personal information?</b></p>	<p>To protect your personal information from unauthorized access and use, we use security measures that comply with federal law. These measures include computer safeguards and secured files and buildings.</p>
<p><b>How does State Street collect my personal information?</b></p>	<p>We collect your personal information, for example, when you</p> <ul style="list-style-type: none"> <li>▪ open an account</li> <li>▪ pay us by check</li> <li>▪ make deposits and withdrawals from your account</li> <li>▪ provide account information</li> <li>▪ give us your contact information.</li> </ul>
<p><b>Why can't I limit all sharing?</b></p>	<p>Federal law gives you the right to limit only</p> <ul style="list-style-type: none"> <li>▪ sharing for affiliates' everyday business purposes—information about your creditworthiness</li> <li>▪ affiliates from using your information to market to you</li> <li>▪ sharing for nonaffiliates to market to you.</li> </ul> <p>State laws and individual companies may give you additional rights to limit sharing.</p>

## Definitions

<p><b>Affiliates</b></p>	<p>Companies related by common ownership or control. They can be financial and non-financial companies.</p> <ul style="list-style-type: none"> <li>▪ <i>State Street does not share with affiliates.</i></li> </ul>
<p><b>Non-affiliates</b></p>	<p>Companies not related by common ownership or control. They can be financial and non-financial companies.</p> <ul style="list-style-type: none"> <li>▪ <i>State Street does not share with non-affiliates so they can market to you.</i></li> </ul>
<p><b>Joint marketing</b></p>	<p>A formal agreement between non-affiliated financial companies that together market financial products or services to you.</p> <ul style="list-style-type: none"> <li>▪ <i>State Street doesn't jointly market.</i></li> </ul>