

**781—16.10(12D) Payment of benefits and qualified distributions.** This rule establishes the procedures for the payment of benefits.

**16.10(1)** The participant must initiate distributions for qualified or nonqualified expenses. The participant must file the appropriate form with the program administrator.

**16.10(2)** Benefits will be paid in one of three ways once the request has been received by the program administrator:

- a.* Directly to the institution of higher education for qualified expenses only.
- b.* Directly to the participant for qualified or nonqualified expenses.
- c.* Directly to the beneficiary for qualified expenses only.

**16.10(3)** Each distribution of benefits will be comprised partly of contributions and partly of earnings, based upon the same proportion that contributions and earnings comprise the participant's account at the time of the distribution.

**16.10(4)** Funds that are distributed to a participant pursuant to this rule shall be reported to the IRS on a 1099Q in the tax year in which such distribution is made. The participant will receive the 1099Q for any distributions made to the participant. The beneficiary will receive the 1099Q for any distributions made to the beneficiary or institution of higher education. The individual receiving the 1099Q must determine whether the distribution was qualified or nonqualified. Nonqualified distributions may be subject to state and federal taxes and penalties.

**16.10(5)** A participant may transfer any remaining balance in one account to an existing or new account for another designated beneficiary by completing a new participation agreement with the program administrator.