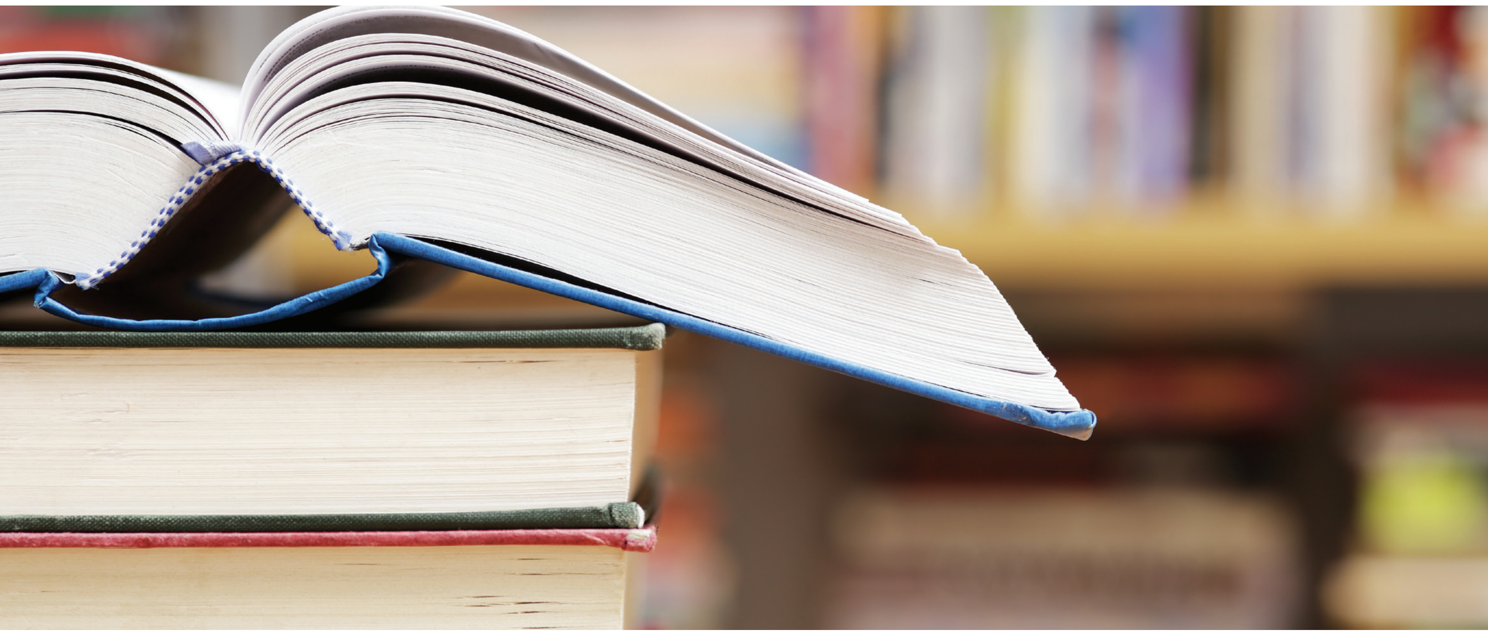
529 Education Savings Plans

The smart way to save and invest for education



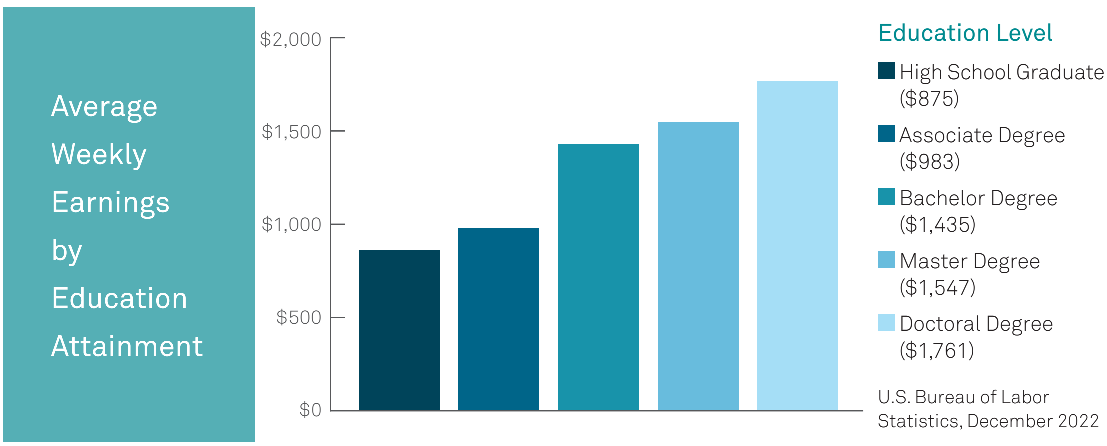
Education Paves the Way

An investment in education is an investment for the future, whether you are saving and investing for your children, your grandchildren or even yourself.

In 1970, only 21% of middle-class workers had any education beyond high school.[1] Today, the majority of higher paying jobs in the U.S. require some type of higher education.[2] People who don't pursue some type of post-secondary education take a chance at falling behind in their pursuit of the American dream.

Education Is Still Worth the Investment

The average pay gap between those who earned at least a Bachelor's degree and those who did not has grown increasingly wider. In 2022, the typical college graduate with a Bachelor degree earned $1,435 a week, versus $875 for a high school graduate with no college.[3] Similarly, the unemployment rate in 2022 was 2.4% for college grads versus 4.9% for those with no college.[4]



[1] U.S. Bureau of the Census, Current Population Reports, November 1970

[2,3] U.S. Bureau of Labor Statistics, December 2022.

[4] Economic Policy Institute, State of Working America Data Library, College Wage Premium, December 2022.

High Cost, High Debt

The costs of education, especially college tuition, continue to rise much faster than other expenses in recent decades. According to the U.S. Department of Education, the average annual cost of in-state tuition and fees at public four-year colleges has increased 10% over the last 10 years, and approximately 19% at private four-year colleges over the same time period.[5]

How Am I Going to Pay for This?

After retirement, your children's education may be your most important financial consideration. Fortunately, there are dedicated savings vehicles available to help.

A 529 education savings plan is a tax-advantaged investment plan that encourages saving and investing for future education expenses, typically for a child or grandchild. The plans (established under Section 529 of the Internal Revenue Code) were enabled by the U.S. Congress in 1996 and are administered by state agencies and organizations.

What Makes 529 Education Savings Plans So Popular?

Flexibility, control and tax advantages help make them one of the most popular education savings vehicles for American families and can lessen the need to borrow.

- **Flexibility.** You can open a 529 education savings plan for your child, grandchild, the child of a friend or even yourself. There are no income limits so you can contribute to a 529 education savings plan no matter how much you earn. Assets can be used for a variety of qualified education expenses. This includes certain tuition expenses at K-12 public, private or religious schools, and college tuition and fees such as room and board, books and other supplies for schools located anywhere in the nation and eligible foreign institutions.
- **Control.** With a 529 education savings plan, the account owner, rather than the beneficiary, retains control of the assets and decides on the amount and timing of withdrawals. Account owners can change the beneficiary to another family member of the original beneficiary (as defined by the Internal Revenue Code) at any time and the investment allocation can be adjusted twice a year.

[5] National Center for Education Statistics (NCES), U.S. Department of Education, Condition of Education, Institute of Education Sciences, June 2022.

Tax Advantages

In addition to providing flexibility and control, 529 education savings plans offer triple-tax savings.

Federal Tax Savings

Earnings in 529 education savings plan accounts can grow free from federal income tax. In addition, all withdrawals from 529 education savings plans for qualified education expenses are also free from federal tax. However, non-qualified withdrawals are taxed at the account owner's ordinary income tax rate and subject to an additional 10% federal tax penalty.

State Tax Savings

Many states offer state tax-deferred growth and tax-free withdrawals for qualified education expenses. In addition, a number of states offer in-state tax benefits to individuals who contribute to their home state plan.

Estate Planning

A 529 education savings plan can be an effective strategy to reduce future estate taxes by transferring up to $17,000 per contributor ($34,000 per married couple) to a child or grandchild yearly without triggering potential federal gift tax implications. Additionally, 529 plans offer an accelerated gift strategy allowing individuals or married couples to contribute up to $85,000, or $170,000 respectively, in one year and treat that as an allowable gift for the next five years (subject to limitations).[6] Once assets are contributed to the 529 account, the assets are generally considered to be out of the account owner's estate.

Before investing in any other 529 education savings plan, you should take into consideration any offers of the home state of the investor or beneficiary. This includes state tax or other benefits such as financial aid, scholarship funds or protection from creditors, that are only available by investing in that state's education savings plan.

[6] To take advantage of the accelerated gifting and tax treatment, donors must report five equal transfers on their federal income tax filing to avoid adverse tax consequences. You should consult a legal or tax advisor about your individual circumstances before adopting a gifting strategy.

How Does It Compare?

	529 Education Savings Plan	Coverdell Education Savings Account	Qualifying U.S. Savings Bonds
Federal Income Tax (State Tax Implications May Also Apply)	Non-deductible contributions; earnings grow income tax free and qualified distributions are federal income tax free	Non-deductible contributions; earnings grow income tax free and qualified distributions are federal income tax free	Tax deferred for federal; tax free for state. Certain post 1989 EE and I bonds may be redeemed federal tax free for qualified education expenses
Federal Gift Tax Treatment	Contributions treated as completed gift; $17,000 annual gift exclusion or up to $85,000 with five-year election	Contributions treated as completed gift; apply $17,000 annual gift exclusion	Qualifying bonds must be owned by the parent
Federal Estate Tax Treatment	Value removed from contributor's estate	Value removed from contributor's estate	Value included in bond owner's estate
Maximum Contribution	Determined by plan. Most in excess of $350,000 per beneficiary	$2,000 per beneficiary per year	Maximum face value varies per year, per owner, per type of bond
Qualified Expenses	Tuition, room and board, books, supplies, equipment and certain fees; additional expenses for K-12	Tuition, room and board, books, supplies, equipment and certain fees; additional expenses for K-12	Tuition and fees only
Able to Change Beneficiary	Yes, to another member of the beneficiary's family	Yes, to another member of the beneficiary's family	N/A
Time/Age Restrictions	None	Contributions must be made before beneficiary reaches age 18 with use of the account by age 30	Bond purchaser must be at least age 24
Income Restrictions	None	Ability to contribute phases out for incomes between $190,000 and $220,000 for couples or $95,000 and $110,000 for individuals	Interest exclusion phases out for incomes beginning at $137,800 for couples and $91,850 for individuals
Federal Financial Aid	Counted as an asset of the parents if the account owner is the parent of a dependent student	Counted as an asset of the parents if the account owner is the parent of a dependent student	Counted as an asset of the bond owner
Investments	Investment options determined by plan	Securities and certain other investments	Interest-earning bond backed by full faith and credit of the U.S. government
Use for Nonqualifying Expenses	Subject to federal income tax and 10% penalty	Subject to federal income tax and 10% penalty	No penalty; interest on redeemed bonds included in federal income
Ability to Roll Unused Funds Into Retirement Account Tax-Free *	Yes, unused funds can be rolled over on a tax-free basis to a Roth IRA if the 529 account has been open at least 15 years; maximum contribution limit of $35,000 over the course of the beneficiary's lifetime	N/A	N/A

* As part of the Secure Act 2.0 legislation, the IRS will allow for rollovers for certain qualifying distributions from 529 accounts to a Roth IRA tax-free over the course of the beneficiary's lifetime. Changes related to the Secure Act will be effective on January 1, 2024. The beneficiary should consult a tax advisor before executing a rollover.

This chart outlines the major points of comparison for the education savings vehicles available. This chart is intended to provide general information for the year 2023. Consult your legal or tax advisor about your individual situation before implementing any strategies described or establishing and maintaining a 529 education savings plan account.

Roth IRA (Individual Retirement Account)	Traditional IRA	UGMA (Uniform Gift to Minors Act) or UTMA (Uniform Transfers to Minors Act)	Mutual Funds
Non-deductible contributions; however, withdrawn earnings are excluded from income tax only after age 59½ and after the account has been established for five years. 10% penalty for early withdrawal waived if used for education expenses. Primarily intended for retirement savings	Deductible or non-deductible contributions; however, withdrawals in excess of basis are subject to income tax. 10% penalty for early withdrawal waived if used for education expenses. Primarily intended for retirement savings	Earnings and gains taxed to the minor; first $1,050 of unearned income is taxed at the child's rate; unearned income over $2,100 for children through age 23 is taxed at the parents' rate	Earnings and gains taxed in the year realized; special lower tax rates for certain dividends and capital gains
No gift involved	No gift involved	Transfers treated as completed gift; apply $17,000 annual gift exclusion	No gift involved; direct payments of tuition not considered gifts
Value included in account owner's estate	Value included in account owner's estate	Value removed from contributor's estate unless contributor remains custodian	Value included in owner's estate
$6,500 ($7,500 for contributors age 50+)	$6,500 ($7,500 for contributors age 50+)	No limit	No limit
Same as 529 plans	Same as 529 plans	No restrictions	No restrictions
Beneficiary can be changed; however, the beneficiary for these accounts is intended to identify the individual who receives assets when the account owner dies	Beneficiary can be changed; however, the beneficiary for these accounts is intended to identify the individual who receives assets when the account owner dies	No, represents an irrevocable gift to the child	N/A
Withdrawn earnings are tax free only after five years and age 59½	Withdraw without penalty only after age 59½	Custodianship terminates when minor reaches age established by state law (generally 18 or 21)	N/A
Must have taxable compensation; contributions limit phases out for incomes less than $228,000 for couples or less than $153,000 for individuals	Must have taxable compensation; amount deductible reduced or eliminated for taxpayers who participate in an employer retirement plan and have income above certain limits	None	None
Not counted as an asset; withdrawals of principal and interest count as financial aid income	Not counted as an asset; withdrawals of principal and interest count as financial aid income	Counted as student's asset	Counted as an asset of the owner
Securities and certain other investments	Securities and certain other investments	As permitted under state law	Mutual funds
Taxable portion of withdrawal prior to age 59½ also subject to 10% early withdrawal penalty	Taxable portion of withdrawal prior to age 59½ also subject to 10% early withdrawal penalty	Funds must be used for benefit of the child	No restrictions
Same as 529 plans	No, subject to penalties and taxes	N/A	N/A

Frequently Asked Questions

What is a 529 education savings plan?

A 529 education savings plan is a tax-advantaged investment plan to help families save money for educational expenses. Earnings in a 529 plan can grow tax deferred from federal income tax and all withdrawals for qualified education expenses are free from federal income tax as well.

Can 529 assets also be used for K-12 tuition expenses?

Yes. As a result of the Tax Cuts and Jobs Act, 529 assets can now be used for up to $10,000 per year in K-12 tuition expenses. This gives families the opportunity to save tax-free for private and religious K-12 schools. State law may or may not allow similar 529 tax advantages or may be limited only to the state sponsored plan. Your advisor can help you compare all your education savings options.

What is the main difference between a 529 education savings plan account and a UGMA or UTMA account?

The primary difference between these accounts is control. With a 529 plan, control over the account does not transfer to the beneficiary when he or she reaches the age of majority, as it automatically does with UGMA or UTMA accounts. The 529 plan account owner always remains in control of the plan and the distribution of funds.

Can assets in a UGMA or UTMA account be transferred into a 529 education savings plan?

Yes. The custodian for the beneficiary may elect to place part or all of the UGMA or UTMA assets into a 529 education savings plan. Note that while the beneficiary is a minor, the beneficiary of the 529 education savings plan account cannot be changed, and non-qualified withdrawals cannot be made other than for the benefit of the beneficiary, in accordance with the terms governing the UGMA or UTMA account. UGMA and UTMA assets must be liquidated prior to transfer since only cash contributions are permitted into a 529 education savings plan account. As a result, be sure to consider the tax ramifications before transferring. Upon transfer to a 529 plan account, the beneficiary will also be considered the account owner and will be able to withdraw the assets after reaching the age of majority.

Can assets in a Coverdell Education Savings Account be transferred into a 529 education savings plan?

Yes. As a result of the Tax Cuts and Jobs Act, an existing Coverdell Education Savings Account can be rolled over into a 529 plan with no tax consequences. Same as the UGMA or UTMA account, the custodian for the beneficiary would need to liquidate the Coverdell's assets prior to transfer since only cash contributions are permitted into a 529 education savings plan. Talk to your tax advisor who can help you consider your specific situation.

Can I make a withdrawal for non-education purposes?

You can take a withdrawal from your account at any time. However, if the withdrawal is not used to pay for qualified education expenses, earnings will be taxed as ordinary income at the account owner's federal income tax rate. Earnings on non-qualified withdrawals are also subject to an additional 10% federal income tax penalty.

What if the beneficiary of the 529 education savings plan account decides not to go to college?

As the account owner, you have control of withdrawals. If the beneficiary chooses not to go to college, you have four options:

1. **Do nothing.** Since there are no age restrictions on the account in the 529 education savings plan, assets can continue to grow tax deferred in the account and be available in future years if the beneficiary changes his or her mind about school.
2. **Change the beneficiary of the account.** However, the new beneficiary must be a family member of the original beneficiary (as defined by the Internal Revenue Code).
3. **Roll into a Roth IRA.**[7] Beginning January 1, 2024, assets can be rolled over on a tax-free basis to a Roth IRA with a maximum of $35,000 over the course of the beneficiary's lifetime, if the 529 education savings plan has been open at least 15 years. The beneficiary must be the original beneficiary (not another family member) of the 529 account. Annual Roth IRA contribution limits also apply ($6,500 annually). The beneficiary should consult a tax advisor before executing a rollover.
4. **Make a non-qualified withdrawal.** Earnings will be taxed at the account owner's ordinary income tax rate and subject to an additional 10% federal tax penalty.

[7] As part of the Secure Act 2.0 legislation, the IRS will allow for rollovers for certain qualifying distributions from 529 accounts to a Roth IRA tax-free starting January 1, 2024. Individuals should consult a tax advisor before executing a rollover.

What if the beneficiary receives a scholarship?

If the beneficiary receives a scholarship for education expenses, you may withdraw an amount equal to the value of the scholarship from the 529 education savings plan account. Earnings on the amount withdrawn will be taxed at the account owner's federal income tax rate, but will not be subject to the 10% penalty tax. You can also use the funds to pay for expenses not covered by the scholarship, such as room and board, books and other required supplies. Other options include leaving the money in the account, changing the beneficiary or rolling unused funds into a Roth IRA. Your advisor can help you compare all your options.

Will investing in a 529 education savings plan affect eligibility for financial aid?

Assets in 529 education savings plan accounts usually have a relatively small effect on federal financial aid eligibility because they are considered assets of the account owner (most frequently, the parent) in the Expected Family Contribution calculator (EFC). Conversely, accounts that are considered assets of the beneficiary (child), such as an UGMA or UTMA account, tend to have a greater effect on federal financial aid eligibility in the EFC calculation. As an added consideration, you can also talk with the school and review their federal financial aid rules if the beneficiary is interested in attending a specific college or university.

It Can Make a Difference

Beginning early makes it easier but it is never too late to get started.

The example below shows how a monthly investment in a 529 education savings plan could grow to be significant no matter when you start. Results assume a 4% average annual return and no withdrawals. This hypothetical example is for illustrative purposes only and is not meant to represent any specific program or investment.

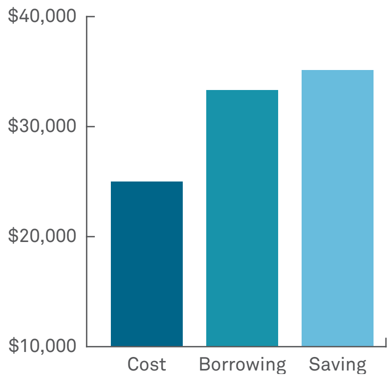
How Your Monthly Investment Could Grow

529 plan	Account value at age 18 if your beneficiary is currently a...		
Monthly investment	Newborn	6-year-old	12-year-old
$100	$31,559	$18,444	$8,122
200	63,118	36,887	16,245
300	94,678	55,331	24,367
400	126,237	73,774	32,489
500	157,796	92,218	40,611

Saving vs. Borrowing

Consider a hypothetical example. In 10 years, suppose your child is facing $25,000 in education expenses. You, he or she could borrow the money, paying 6% interest for 10 years. Or, you could begin investing $152 per month now in a tax-advantaged 529 plan account earning a hypothetical 6% per year (with no withdrawals).

Actual Cost of $25,000 in College Expenses



Education Expenses = $25,000
Borrowing at 6% for 10 years = $33,306
Saving and Investing $152 monthly for 18 years = $34,802

For illustrative purposes only. Not intended to portray an actual investment. If your annualized return was less than 6%, the investment amount needed to reach $25,000 would be higher.

How Your Advisor Can Help

Your advisor can help you open, maintain and monitor your 529 plan account.

- Identify the cost of education and estimate how much you will need
- Compare and contrast the features, investment options and costs of several 529 plans
- Begin a strategy with appropriate investments for your situation, timing and risk tolerance
- Track your progress and monitor your investment performance
- Understand your options regarding investments and changing allocations
- Take distributions wisely

Your advisor can help you consider your specific situation and the features and benefits as well as any risks of saving and investing for education through a 529 education savings plan. If you determine a 529 plan is right for you, your advisor can open and monitor the account's performance along with your other investments on the brokerage platform. Carefully review the program description for a 529 education savings plan, which you can obtain from your advisor, before investing. If you currently have a 529 education savings plan account held directly with a state agency administering the plan or mutual fund company, you may want to consider consolidating the accounts with your advisor.

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