529 College Savings Plans

A 529 college savings plan provides flexibility, tax advantages and more to help you stay on top of one of the most important financial considerations your family may face.

Key Benefits

A 529 college savings plan can:

- Help you make progress toward saving and investing for a major future educational expense
- Provide tax-deferred growth and federal income tax-free withdrawals for qualified higher education expenses
- Reduce the amount you or the beneficiary may need to borrow to pay for school
- Allow the account owner to remain in control of the assets

Currently one of the most popular college savings vehicles for American families, a 529 plan offers a combination of features that may be unmatched by any other educational savings method.

Flexibility

You can open a 529 college savings plan for your child, grandchild, a friend or even yourself. There are no income limits and you can contribute to a 529 college savings plan no matter how much you earn. Account assets can be used to pay for qualifying expenses at community colleges, undergraduate and graduate schools and technical training schools located anywhere in the nation and eligible foreign institutions. Assets can be used for a variety of qualified higher education expenses including tuition, room and board, books and certain fees.

Control

With a 529 college 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.

Estate planning

A 529 college savings plan can be an effective strategy to reduce future estate taxes by transferring up to $14,000 per contributor ($28,000 per married couple) to a child or grandchild yearly without paying a gift tax. Additionally, 529 plans offer an accelerated gifting strategy allowing individuals or married couples to contribute up to $70,000, or $140,000 respectively, in one year and treat that as an allowable gift for each of the next five years (subject to limitations).[1] Once assets are contributed to the 529 account, the assets are generally considered to be out of the account owner's estate.

Tax advantages

Earnings in a 529 college savings plan can grow tax-deferred from federal income tax and all withdrawals for qualified higher education expenses are free from federal income tax as well. In addition, many states offer in-state tax benefits to individuals who contribute to their home state plan.

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[1] 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.

Helpful Tips

Talk with your advisor if:

- You have children or grandchildren who may be interested in higher education someday
- You are currently saving and investing for college outside a 529 plan
- You have a 529 college savings plan held directly with a fund company or state program
- You have children or grandchildren with educational funding needs and you have wealth transfer or estate tax considerations

Begin a strategy

Getting started is always the key to making progress and your advisor can help with a savings and investment strategy and time table.

Understand your options

Your investment mix can be adjusted twice a year and 529 plan assets can be transferred—in whole or in part—among the 529 accounts of different family members of the original beneficiary without penalty once per year (federal tax implications may apply).

Take distributions wisely

529 account assets can be used to pay for qualified higher education expenses, which include tuition, room and board, and certain required books, supplies, fees and expenses. If distributions are not used for qualified higher education expenses, you will have to pay federal income tax and you may face a 10% penalty on earnings. State tax implications may also apply.

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Begin early

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 college 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

	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

Talk to your advisor to find out more

Your advisor can help you consider your specific situation and the features and benefits as well as any risks of saving and investing for higher education through a 529 college savings plan. You should carefully review the program description for a 529 college savings plan, which you can obtain from your advisor, before investing. If you currently have a 529 college savings plan held directly with a state agency administering the plan or mutual fund company, you may want to consider consolidating the accounts with your advisor.

Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value. Pershing does not provide tax or legal advice. The tax and estate planning information is not intended to be legal or tax advice and is general in nature. Individuals should seek professional advice before transferring funds or taking distributions.

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