UBS

529 college savings plans

Preparing for higher education costs

With education costs skyrocketing, you need a plan to help your children or grandchildren get the education they need for future success. 529 college savings plans were created to help parents, grandparents and others put money aside for a child's education expenses on a tax-advantaged basis. Knowing the benefits and considerations of starting a 529 plan is the final step in helping your loved ones pursue their goals.

Let's start with the basics

- A 529 plan is a state-sponsored education savings account. Each individual state determines the maximum contributions, eligible investments and tax advantages.
- Contributions are made on an after-tax basis, but earnings grow tax-free.
- Distributions used toward the qualified education expenses of the beneficiary at an eligible educational institution are free from federal and state income taxes.
- The account owner, who is usually the contributor, controls the account, including the beneficiary designation, investment selection, and when and how much to distribute.

The who, what and where of contributions

- **Who is eligible:** Parents, grandparents, relatives, friends and others who are US citizens or resident aliens and at least 18 years old may open an account and contribute.
- **Maximum contributions:** There is no annual maximum, but annual contributions over $16,000 may be subject to federal gift tax. Contributions to the account are limited to each state's specific maximum account size (generally between $235,000 and $550,000).
- **Eligible distributions:** Funds can be used for tuition, mandatory fees, books, supplies, and equipment required for enrollment or attendance. In addition, certain room and board costs and certain expenses for special-needs students may qualify. In addition, up to $10,000 (per beneficiary, lifetime limit) may be taken for the beneficiary's or a sibling's student loan repayment.
- **Eligible institutions:** Whether your beneficiary attends, a private K-12 institution[1]; a private or public university, in-state or out-of-state, trade or graduate school, funds in the account may be used at any accredited educational institution in the nation, and many abroad, as well as certain registered apprenticeship programs.
- **Allowable investments:** The state determines the allowable investments, typically an approved list of mutual funds.
- **Contribution deadline:** Depending on the state's rules, the due date is generally either year-end or the contributor's tax return due date.
- **Non-qualified distributions:** Earnings are taxed as ordinary income and may be subject to a federal 10% penalty.[2]
- **Allowable changes:** Both transfers and rollovers are limited to one, per beneficiary, per 12 months. Investment changes are limited to twice per calendar year.
- **Resident requirement:** You're not required to invest in your own state's 529 plan but should consider state tax advantages when selecting a plan with your UBS Financial Advisor. Distributions can be used to pay for schools outside of the contributor's or beneficiary's state of residence. You may contribute to more than one state 529 plan.

The key benefits

- **Tax advantages:** Earnings are not subject to federal tax or state tax when used for the qualified education expenses of the designated beneficiary.
- **Accelerated gifting:** Instead of gifting $16,000 per beneficiary per year using the current annual exclusion, you may contribute five years of gifts in the first year, for a total of $80,000 per individual without paying gift tax (or $160,000 for married couples filing jointly). This also excludes that money from your estate. Taking advantage of this option allows you to make significant contributions early and benefit from any tax-deferred growth within the 529 account.[3]

The key considerations

- 529 plans charge fees and expenses to cover investment expenses and the administration of your account.
- Withdrawals from a 529 plan not used for the beneficiary's qualified education expenses are taxed and penalized. The earnings portion of the withdrawal is subject to a 10% federal penalty and is taxed at the income tax rate of the person who receives the withdrawal. If you were able to deduct your original contributions on your state income tax return, you will generally have to report additional state "recapture" income.
- Your investment choices are limited to the pre-established investment portfolios offered by the plan, and may only be changed twice a year.
- College savings plans don't guarantee your return and are subject to risk—you could lose some or all of the money you've contributed. Markets could potentially decline when your child is ready to enroll in college and 529 funds are needed to pay tuition.
- Your 529 plan could have an impact on the child receiving financial aid.

An overview of 529 programs by state

State	Tax benefits	In-state program available at UBS
Alabama	Yes[4]	Union Bank and Trust—CollegeCounts Advisor Guided 529 Fund
Alaska	No	John Hancock—John Hancock Freedom 529
Arizona	Yes[5]	Goldman Sachs—Goldman Sachs 529 Plan
Arkansas	Yes	Ascensus—Brighter Future 529 Advisor Plan
California	No	None
Colorado	Yes	Nuveen—Scholars Choice Education Savings Plan
Connecticut	Yes	Fidelity Advisor—CHET Advisor
Delaware	Yes	None
District of Columbia	Yes	None
Florida	No	None
Georgia	Yes	None
Hawaii	No	None
Idaho	Yes	None
Illinois	Yes	Union Bank and Trust—Bright Directions Advisor-Guided 529 College Savings Program
Indiana	Yes	Ascensus—CollegeChoice Advisor 529
Iowa	Yes	None
Kansas	Yes[5]	None
Kentucky	No	None
Louisiana	Yes	None
Maine	No	None
Maryland	Yes	None
Massachusetts	Yes	None
Michigan	Yes	Nuveen—MI 529 Advisor Plan
Minnesota	Yes[5]	None
Mississippi	Yes	None

An overview of 529 programs by state

State	Tax benefits	In-state program available at UBS
Missouri	Yes[5]	None
Montana	Yes[5]	None
Nebraska	Yes	Union Bank and Trust—NEST 529 Advisor Plan
Nevada	No	Putnam—Putnam 529 for America
New Hampshire	No	Fidelity Advisor—Fidelity Advisor 529 Plan
New Jersey	Yes	Franklin Templeton—Franklin Templeton 529 College Savings Plan
New Mexico	Yes	Principal Funds—Scholar'sEdge 529
New York	Yes	JP Morgan—New York's 529 Advisor Guided College Savings Program
North Carolina	No	None
North Dakota	Yes	None
Ohio	Yes	BlackRock—CollegeAdvantage Advisor 529 Plan
Oklahoma	Yes	Fidelity Advisor—OklahomaDream529
Oregon	Yes	MFS—MFS 529 Plan
Pennsylvania	Yes[5]	None
Rhode Island	Yes	Invesco—CollegeBound 529
South Carolina	Yes	Columbia—Future Scholar 529 Plan
South Dakota	No	Virtus—CollegeAccess 529
Tennessee	No	None
Texas	No	Orion—Lonestar 529 Plan
Utah	Yes	None
Vermont	Yes	None
Virginia	Yes	American Funds—CollegeAmerica
Washington	No	None
West Virginia	Yes	Hartford—The Hartford SMART 529
Wisconsin	Yes	VOYA—Tomorrow's Scholar 529 Plan
Wyoming	No	None

Additional resources
Consider in-state 529 plan(s) first by reviewing the state's 529 plan website if a state tax benefit exists based on your residency. In addition, there are other 529 internet resources available such as:

- **http://www.collegesavings.org**

- **http://www.finra.org/** a 529 College Savings Plan Expense Analyzer under "Investors," "Tools and Calculators"

The websites listed above are not affiliated with UBS, and UBS does not guarantee the accuracy of their content.

Let's have a conversation

The best way to prepare for your children's or grandchildren's education expenses is to become familiar with your savings options. Let's discuss your 529 plan options and other education savings alternatives.

Your life today is much bigger than your investments. And achieving your life's goals is being challenged in new ways. By the realities of a longer retirement. The demands of caring for aging parents. The threat of online identity theft. And the financial burden of long-term healthcare. Your UBS Financial Advisor can help you understand how all the moving parts of your life can fit together to help you pursue what's important—including the role that a 529 college savings plan can play in your overall financial plan. It's what we call: Advice. Beyond investing.

[1] Beginning in 2018, 529 accounts may be able to distribute up to $10,000 per student per year for tuition only at a public, private or religious elementary or secondary school. Availability is dependent on when state law conforms their definition of eligible educational expenses to match this change to federal law.
[2] The 10% penalty does not apply on account of death, disability or scholarship. The new beneficiary must be a family member of the current beneficiary. If you take a non-qualified distribution you may also have to pay back the state's tax benefits.
[3] The accelerated gifting election is made on IRS Form 709 and filed with your federal tax return in the first year the accelerated gift is given. You cannot use the annual exclusion for gifts to this individual before the end of five calendar years, but subsequent rounds (i.e., every five years) of accelerated gifting is permitted.
[4] Alabama offers state tax benefits for investing in its in-state 529 plan and imposes state tax on withdrawals from out-of-state 529 plans. Residents of Alabama should proceed with extreme caution when considering investing in an out-of-state 529 plan.
[5] These states have tax benefits for investing in any state's 529 plan.

[*] Investing involves risks, including the potential of losing money or the decline in value of the investment. Performance is not guaranteed. Investors should be aware that the markets have risks and the value of their investments changes from day to day. Therefore, an investment's return and principal value will fluctuate so that an investor's shares, when redeemed or sold, may be worth more or less than their original cost.

All 529 Plan provisions, including plan minimums, fees, expenses, requirements, features and benefits vary by state.

529 plans are sold with program descriptions that contain details of the risks, fees and charges associated with the particular investment, which you should read carefully before investing. Even though individuals are not required to invest in their in-state plan, some states do provide tax or other advantages exclusively to residents who invest in their own state's plan. For example, many states offer a state income tax deduction for contributions and/or state income tax exemption for qualified withdrawals. States may impose state tax liability on withdrawals and/or earnings from out-of-state 529 plans. In addition, some states offer prepaid tuition plans. You should carefully review this with your tax advisor before deciding on a 529 plan.

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