

Ten Things You Should Know About 529 Education Savings Plans



While the cost of living is steadily increasing, higher-education costs are rising at a faster rate — approximately twice the rate of general inflation¹ — with the average cost of a private four-year college education topping \$46,950 annually.²

There are several options available to help you prepare for this important milestone, including 529 plans, which have revolutionized the way investors save for college and other qualified education expenses. The plans offer an exceptional degree of flexibility and control, and provide benefits that other education savings programs don't offer.

Here's what you should know if you are considering a 529 savings plan:

1. THEY'RE NOT JUST FOR KIDS.

Although most 529 savings plans are used to fund higher education for children, they are ideal for *anyone* with education funding needs. Whether you're a retiree who wants to pursue lifelong learning or a professional who is returning to school to advance your career, 529 savings plans may have a place in your investment portfolio.

2. IT'S AN EDUCATION SAVINGS VEHICLE THAT ALLOWS TAX-FREE ACCUMULATION OF SAVINGS AND TAX-FREE WITHDRAWALS.

Money in a 529 savings plan accumulates free of federal taxes, and as long as funds are used for qualified education expenses, the withdrawals from your account are also tax-free.³

3. YOU MAY BE ELIGIBLE FOR ADDITIONAL TAX BENEFITS BY OWNING THE 529 SAVINGS PLAN OFFERED BY YOUR STATE.

Many states offer tax deductions to residents who contribute to their own state's plan. A few states offer a state tax

deduction, regardless of which 529 plan you invest in. Your Financial Advisor can help you select the right plan from the available options. State laws vary, so consult with your tax advisor.⁴

4. IF YOU'RE THE ACCOUNT OWNER, YOU HAVE COMPLETE CONTROL OVER HOW 529 ASSETS ARE USED.

Some vehicles traditionally used for education funding, such as uniform gift to minors accounts (UGMA), require that the assets be turned over to the beneficiary at a certain age. With a 529 plan, you — not the beneficiary — control how the money ►

► is used, thus ensuring that it is spent according to your wishes. This means that if it is not utilized for the beneficiary's educational purposes, you can choose another beneficiary or use the plan for your own educational funding needs.

5. 529 PLANS TYPICALLY HAVE HIGH MAXIMUM CONTRIBUTION LIMITS, WHICH ALLOW YOU TO SAVE MORE FOR EDUCATION EXPENSES.

Most 529 plans have contribution limits in excess of \$200,000 per beneficiary, enabling you to accumulate sufficient assets to cover college costs fully.⁵

6. CONTRIBUTING TO A 529 PLAN CAN REMOVE TAXABLE ASSETS FROM YOUR ESTATE, WHICH MAY REDUCE YOUR TAX LIABILITY.

Your contribution is treated as a gift to the named beneficiary (for gift-tax and generation-skipping transfer-tax purposes) and qualifies for the \$15,000 annual gift-tax exclusion, allowing you to make fairly large contributions without incurring the gift tax. What's more, if you make a contribution between \$15,000 and \$75,000^{6,7} for a beneficiary, you can elect to treat the contribution as if it were made over a five-calendar-year period for gift-tax purposes. This means the money gets out of your estate faster than if you made contributions each year. And the best part? Even though the asset leaves your estate, it doesn't leave your control if you are the owner of the 529 plan.^{3,8}

7. THEY'RE NOT JUST FOR IN-STATE COLLEGES AND UNIVERSITIES.

Whether the goal is to spend a semester abroad or pursue a degree stateside, you can use a 529 savings plan at any in-state, out-of-state or international institution, as long as it's used with an accredited program. Additionally, the Federal Tax Cuts and Jobs Act of 2017 permits Federal Tax Free qualified withdrawals from 529 plans of up to \$10,000 per year per student to pay expenses for tuition in connection with enrollment or attendance at an elementary or secondary public, private or

religious school. The state tax treatment of K-12 withdrawals is under review by many states. Account owners should consult with a qualified tax advisor prior to making such withdrawals as they may be subject to adverse tax consequences.

8. THERE ARE NO INCOME RESTRICTIONS.

Unlike some education funding vehicles with age and income restrictions, which limit the amount you can save, generally anyone can contribute to or use 529 plans for education purposes—parents, grandparents, aunts and uncles, or even friends. You can even change the beneficiary without penalty.⁹

9. PLANS ARE PROFESSIONALLY MANAGED AND OFFER A RANGE OF INVESTMENT OPTIONS.

With 529 savings plans, you have access to professional money managers with years of experience managing assets. Most plans also offer several investment options, such as age-based portfolios that become more conservative as the beneficiary nears their college attendance date.

10. ONLY A SMALL PERCENTAGE OF 529 ASSETS ARE INCLUDED IN FINANCIAL AID CALCULATIONS.

Although the rules may vary slightly by state, generally a 529 account owned by a parent for a dependent student is reported on the federal financial aid application (FAFSA) as a parental asset and is assessed at a (maximum) 5.6% rate in determining the student's expected family contribution (EFC).¹⁰

A Range of Investment Strategies to Help You Achieve Your Goals

A 529 plan can help you put a loved one on the path to success, while reducing the taxable value of your estate. Morgan Stanley offers many 529 plans from some of the nation's leading mutual fund companies. You can choose from a range of investment strategies, depending on the specific plan, the age of the beneficiary, your financial objectives and risk tolerance.

Your Morgan Stanley Financial Advisor can answer your questions about 529 plans and provide guidance on developing an approach to help you achieve your education savings and other goals.

¹ Edvisors.com, 2018.

² Represents the average annual cost of a private four-year institution for tuition, fees, room and board. Source: The College Board, Trends in College Pricing, 2017.

³ Assets can accumulate and be withdrawn federally tax-free only if they are used to pay for qualified expenses. Qualified expenses include tuition, fees, room and board, books and supplies at virtually any accredited post-secondary school. Effective January 1, 2018, the definition of qualified education expenses expanded to include tuition for K-12 schools, as a result of the 2017 Tax Cuts and Jobs Act. The new law limits qualified 529 withdrawals for eligible K-12 tuition to \$10,000 per beneficiary per year and state tax treatment will vary on a state-by-state basis. The state tax treatment of K-12 withdrawals is under review by many states. Account owners should consult with a qualified tax advisor prior to making such withdrawals as they may be subject to adverse tax consequences. Earnings on non-qualified distributions will be subject to income tax and a 10% federal income tax penalty.

⁴ Some states offer favorable tax treatment and other benefits to their residents only if they invest in the state's own Qualified Tuition Program. Investors should consult with their financial and tax advisor before investing in any 529 plan, or contact their state tax division for more information.

⁵ Contribution limits vary by state. Refer to the individual plan for specific contribution guidelines.

⁶ As of 2018, the annual gift tax exclusion is \$15,000 for individuals, and double for married couples at \$30,000 annually or \$150,000 over a five-year period.

⁷ This assumes that there are no gifts made by the gift giver to the beneficiary in the prior five years. Any gifts made in the five years prior to or the four years after an accelerated gift is made may result in a taxable event.

⁸ If the donor dies within five years of making the contribution, the estate will recapture a portion of the assets.

⁹ Some plans may have age, residency or other restrictions and may charge a fee for beneficiary changes, and beneficiary changes may result in an immediate tax liability if the new beneficiary is not a member of the previous beneficiary's family.

¹⁰ Does a 529 Plan Affect College Financial Aid?, 2017 Edition, www.savingforcollege.com.

The 529 Plan Program Disclosure contains more information on investment options, risk factors, fees and expenses, and potential tax consequences. Investors can obtain a 529 Plan Program Disclosure from their Financial Advisor and should read it carefully before investing.

Before investing, consider whether tax or other state benefits such as financial aid, scholarship funds, and protection from creditors are only available for investments in your home state 529 college savings plan.

Morgan Stanley Smith Barney LLC ("Morgan Stanley"), its affiliates and Morgan Stanley Financial Advisors do not provide tax or legal advice. Clients should consult their personal tax advisor for tax-related matters and their attorney for legal matters.