529 COLLEGE SAVINGS PLANS

If you find yourself intimidated by the ever-rising price of higher education, then a 529 college savings plan might be a key component in saving for a college education. A 529 college savings plan is a tax-advantaged way to save for college and pay for higher education expenses. Unlike some other savings vehicles, a 529 college savings plan may allow you to make sizeable contributions. The funds may generally be used for any qualified college or higher education expense, including tuition, room, board, fees, books, supplies, and equipment. Tax benefits may be subject to certain restrictions.

Money in a 529 college savings plan grows tax deferred. And you may be able to withdraw the money without having to pay federal and state income taxes-depending on the plan and where you live-as long as it's used to pay for qualified, higher-education expenses.1 If the money from 529 college savings plans is used for other purposes, the earnings portion of a withdrawal is subject to ordinary federal income tax, an additional 10% federal tax, and any applicable state income taxes. 529 college savings plans may also affect a student's eligibility for financial aid.

Types of 529 Plans

Although many details of 529 college savings plans vary by state, they generally come in two forms:Although many details of 529 college savings plans vary by state, they generally come in two forms:

- **College savings plans**-allow you to invest your money in an account to pay for the student's higher education expenses. Students can use the funds for qualified expenses at accredited institutions in the U.S. and abroad.
- **Prepaid tuition plans**-allow you to lock in tuition rates at eligible colleges or universities with a lump-sum investment or monthly payments. In other words, since you are paying in advance, you are avoiding potential tuition inflation down the road.

Gift Tax and Estate Tax Benefits

529 plans are partially exempt from the gift tax. You can contribute up to $14,000 ($28,000 for married couples) annually[2] per beneficiary, or up to $70,000 ($140,000 for married couples) over a five-year period, without triggering the gift tax.[3]

Keep in mind that your gifts are excluded from your estate, so investing in a 529 Plan can be a smart strategy to reduce your estate tax.

Scholarship Withdrawals

Funds may be withdrawn without penalty if the beneficiary receives a scholarship (withdrawals can be made up to the scholarship amount), or in the event of the death or disability of the beneficiary. Ordinary federal and state income taxes would be owed on any investment earnings included in gross income.

[1] A federal 10% penalty may be imposed on the earnings portion of a non-qualified withdrawal in addition to ordinary income tax.

[2] Annual exemption amounts are subject to revision by the Internal Revenue Service.

[3] If the Account Owner utilizes the special five-year lump sum exclusion and dies within five years of the funding date, the portion of the contribution allocable to the years remaining in the five-year period (beginning with the year after the Account Owner's death) would be included in the account owner's estate for Federal estate tax purposes. Clients should consult their tax advisor.

Investments in 529 college savings plans are not deposits or obligations of any bank, are not guaranteed by any bank, are not insured by the FDIC or any other agency, and involve investment risks, including the possible loss of the principal amount invested.

Conditions, such as contribution limits, vary by plan. 529 college savings plans are subject to market risk and volatility. Accounts may lose or gain value. Diversification does not assure a profit or protect against loss.

Before investing in any plan, investors should carefully consider investment objectives, risks, charges and expenses. Plan disclosure documents contain this and other information about the plans, and may be obtained by asking your financial advisor. Read these documents carefully before investing.

Some states offer favorable tax treatment to their residents only if they invest in the state's own plan. You should consult your tax advisor.

The information provided is not written or intended as tax or legal advice and may not be relied on for purposes of avoiding any Federal tax penalties. We are not authorized to give tax or legal advice. Individuals are encouraged to seek advice from their own tax or legal counsel.

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