



Grandparents and 529 Plans: Common Myths Answered

Myth 1: My child already has an account for my grandchild why should I have another account?

Realistically, there isn't one right way to pay for a child's higher education. Setting up or contributing to an established account to meet even a portion of a grandchild's expenses will help.

Myth 2: There's no benefit for me if I invest in a NEST 529 Plan for my grandchild.

There are many benefits for grandparents to have their own NEST 529 Plan account.

- In many states, a grandparent can take advantage of a tax deduction or other benefit for contributions.
- Earnings are tax free if used for qualified higher education expenses.
- You can take advantage of gift and estate tax benefits as contributions are considered completed gifts and are taken out of your estate up to an annual limit set by law. Five years of gifting can also be given in one year subject to limitations.¹
- You won't have the expense to establish and maintain a trust which is subject to high tax rates year after year.
- You keep control of the assets and if needed, the beneficiary can be switched to another member of the family.²
- Great way to invest RMDs and avoiding the tax on future earnings.

Those interested in investing in a 529 Plan should talk to a tax advisor to discuss their situation in more detail as we do not make tax recommendations.

Myth 3: If I have unexpected expenses, I can't withdraw my money from the 529 Plan.

NEST allows you to withdraw your funds at any time and for any reason.³

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¹ If the donor dies before the end of the five-year period, a pro-rated amount will revert back to the donor's taxable estate.

² A "member of the family" includes a son, daughter, stepson or stepdaughter (natural, adopted or foster), or a descendant of any such person; a brother, sister, stepbrother, or stepsister; the father or mother, or an ancestor of either; a stepfather or stepmother; a son or daughter of a brother or sister (or half-brother and half-sister); a brother or sister of the mother; a son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law; the spouse of the beneficiary or the spouse of any individual described above; or a first cousin of the beneficiary.

³ Earnings on withdrawals not used for qualified higher education expenses may be subject to federal income tax and an additional 10% federal tax (at ordinary income) and may be subject to state and local taxes.

Myth 4: Scholarships will take care of my grandchild's education.

The cost of college and the availability of scholarships and financial aid have changed dramatically in the last ten years. For those families earning over \$100,000 per year, only 16% is usually paid for from scholarships and grants. Helping your grandchild now will lessen their burden later in life.

Myth 5: If I contribute to the 529 Plan, my grandchild could have trouble getting financial aid.

Needs-based financial aid requires completion of a FAFSA⁴ application. Both the parent and student's income and assets are considered when determining the amount eligible for grants and scholarships. While in a 529 account, assets in a grandparent-owned 529 plan account do not count as the grandchild's income or assets for needs-based financial aid purposes. However, once the assets are withdrawn from the grandchild's account for college costs, 50% of the amount is counted on the FAFSA application. This could decrease the eligible amount for financial aid. It is still a great idea to open an account for a grandchild if you consider the following strategies:

Strategies to mitigate the impact on FAFSA calculations.

- NEST allows the transfer ownership of the account to the child's parent when the child is in college, so then the FAFSA calculation will consider approximately 5.64% of the parent's assets as available to use to pay for college.
- Give cash to parent of child who then opens a 529 account - gifts to parents do not need to be reported as income on FAFSA. However, if the grandparent pays the college directly, it is considered a gift and income to the grandchild.
- The asset and income calculations for FAFSA are based on previous year's information. Wait until the child is in the final year of college to withdraw assets in the grandparent's 529 account to pay for college expenses - after all FAFSA applications are submitted. For example, if the senior year of college is 2015-2016, the FAFSA is submitted after January 1 of 2015 (while a junior) and is based on income and assets from January 1 to December 31 of 2014.

What's Next?

Contact your financial advisor to learn more about saving for college with the **NEST 529 Advisor Plan**. You can also learn more at nest529Advisor.com or call **1.888.659.NEST(6378)**.



⁴ FAFSA stands for Free Application for Federal Student Aid. It is completed to determine the amount the family is expected to pay for college costs at the school the child will be attending (Expected Family Contribution or EFC). After the EFC is determined, the amount eligible for loans, scholarships or grants from the federal government is then determined. Colleges also may use FAFSA to determine their own amount of financial assistance.

An investor should consider the Plan's investment objectives, risks, charges and expenses before investing. The Program Disclosure Statement, at www.NEST529Advisor.com (NEST Advisor Plan), which contains more information, should be read carefully before investing.

Investors should consider before investing whether their or their beneficiary's home state offers any state tax or other benefits that are only available for investments in such state's qualified tuition program and should consult their tax advisor, attorney and/or other advisor regarding their specific legal, investment or tax situation.

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Participation in the Plan does not guarantee that contributions and the investment return on contributions, if any, will be adequate to cover tuition and other higher education expenses, or that a beneficiary will be admitted to or permitted to continue to attend an eligible educational institution.

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