NEST 529
COLLEGE SAVINGS

Grandparents and 529 Plans: Common Myths Answered

Myth 1: My child already has an account for my grandchild so 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 avoid 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]

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, 25% of the total cost of attendance is paid for by scholarships or grants.[4] Helping your grandchild now will lessen their burden later in life.

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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.
4 How America Pays for College 2016, SallieMae, conducted by Ipsos Public Affairs

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 FAFSA[5] 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, the withdrawal amount is included on the student's tax return as income. Fifty percent (50%) of the student's income is counted for the FAFSA needs-based financial aid calculation, thus decreasing 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.

- Consider transferring the assets in your account to the child or the child's parent before the FAFSA filing date as indicated below. 529 accounts owned by the student are counted as the parent's asset, not the child's.
- Give cash to the child's parent 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 funds in a grandparent-owned 529 plan are not considered the student's assets until they are withdrawn. The timing for submitting FAFSA applications, as well as, which tax year's return is used has recently changed:

Student Attending College (School Year)	Tax Return Year used for FAFSA calculation	When FAFSA applications are filed
July 1, 2017 to June 30, 2018	2015 Tax Return	October 1, 2016 to June 30, 2018
July 1, 2018 to June 30, 2019	2016 Tax Return	October 1, 2017 to June 30, 2019
July 1, 2019 to June 30, 2020	2017 Tax Return	October 1, 2018 to June 30, 2020

Due to these changes, grandparents can now withdraw money when the student has two more years of school (typically the junior year) without the withdrawal counted as the student's income on a FAFSA application.

What's Next?

Learn more about saving for college with the **NEST 529 Direct Plan** at **NEST529.com** or call **1.888.993.3746**.

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5 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.

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