SSGA Upromise529
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Administered by
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Dispelling 529 College Savings Plan Myths

With college costs continuing to increase faster than the rate of inflation,[1] even wealthy families need to plan and save for college. And there may be no better savings vehicle than a 529 college savings plan that is designed to combine tax advantages with high contribution limits and allows the account owner to have control over how money is invested and spent. Yet, perhaps because 529 plans can seem too good to be true, numerous myths perpetuate about these college savings plans. Here, we address the most common misunderstandings to help you distinguish fact from fiction.

FICTION:
A 529 plan has income restrictions.

FACT: Unlike retirement savings accounts like the Roth IRA or the Coverdell Education Savings Account, there are no income limitations for investing in a 529 plan. Generally, only individuals (including the beneficiary) whose modified adjusted gross income for the year is less than $110,000 ($220,000 in the case of a joint return) can contribute to a Coverdell Education Savings Account.[2]

In contrast, all investors can receive the federal tax benefits of investing in a 529 plan; also, as an investor's tax bracket increases, the more valuable tax-free qualified withdrawals can become.[3]

FICTION:
Investment options are limited in a 529 plan.

FACT: The SSGA Upromise 529 Plan offers four investment choices. With the College Date Portfolios, you simply select the year you expect the student (the account beneficiary) to start college. These portfolios adjust automatically from more aggressive to more conservative as the student gets closer to college–age (and closer to the selected college date year). On the other end of the decision–making spectrum, customization through the Static Portfolios is possible by building your own portfolio using fifteen precise options, across investment styles and asset classes, each invested in a single underlying SPDR® ETF.[4] The SSGA Upromise 529 Plan also offers three Risk–Based Portfolios and a Savings Portfolio as a Federal Deposit Insurance Corporation (FDIC)–insured option. College Date and Risk–Based Portfolios offer built in tactical asset allocation and broad diversification. To learn more visit: ssga.upromise529.com/investmentoptions.

[1] "Trends in College Pricing 2016," College Board. Accessed 19 Jan. 2017 at: https://trends.collegeboard.org/sites/default/files/2016-trends-college-pricing-web_1.pdf

[2] United States. Dept. of the Treasury. Internal Revenue Services. *Publication 970 (2016), Tax Benefits for Education, Chapter 7. Accessed 19 Jan. 2017 at https://www.irs.gov/publications/p970/index.html*

[3] Earnings on non-qualified withdrawals are subject to federal income tax and may be subject to a 10 percent federal penalty tax, as well as state and local income taxes. The availability of tax or other benefits may be contingent on meeting other requirements.

[4] Although they invest in ETFs and/or mutual funds, the SSGA Upromise 529 Plan Portfolios are not ETFs or mutual funds themselves. As an SSGA Upromise 529 account owner, you will own units of the portfolio, which are municipal fund securities, not shares of the ETFs or mutual funds.

FICTION:
A 529 plan has low contribution limits.

FACT: Not true. Up to $370,000 can be invested in an SSGA Upromise 529 Plan account per beneficiary.[5] In contrast, the Coverdell Education Savings Account limits contributions to just $2,000 a year. Note, too, that anyone can contribute up to $14,000 a year ($28,000 if married) per beneficiary to a 529 plan account without triggering a federal gift tax. Moreover, a special federal gift tax exemption for 529 plans permits contributions of up to $70,000 in one calendar year ($140,000 if married and electing to split gifts) per beneficiary to be treated as if the contribution was made over a five year period for gift tax purposes.[6]

FICTION:
Only a parent can open a 529 account.

FACT: Parents, grandparents, aunts, uncles, and friends can open a 529 account for a beneficiary. Of course, some families prefer to open the account themselves and invite friends and family to make contributions. In fact, Ugift® is an easy way for friends and family to contribute to a 529 account and there is no fee to contribute using Ugift.[7] Gift contributions can be made online or by check, so there's no extra paperwork for you. (Adults also can open a 529 account and name themselves as the beneficiary to fund their own education.)

FICTION:
It's difficult to open a 529 account.

FACT: It is not as cumbersome as you might think. Everything you need to open a SSGA Upromise 529 Plan account is available easily online at ssga.upromise529.com/enroll. The first 529 account an advisor opens will be a paper process. However, from there, an advisor can open subsequent SSGA Upromise 529 Plan accounts through our web–based portal 529quickview.com in just ten minutes. And our 529 QuickView® tool facilitates easy ongoing account management for you and your clients.

FICTION:
It's too late to start a 529 college savings plan for a high school student.

FACT: 529 plans have no age limits, so it's never too late to open an account. Investment options range from conservative to aggressive, so you can select or create a portfolio that's appropriate for older students. Even if the account's held for just a handful of years, the 529 plan's tax–deferred growth and tax–free[8] distributions for qualified higher education expenses can potentially mean more money to pay for college. In fact, even adults planning to return to school may benefit from saving in a 529 plan.

FICTION:
You can't change the investment options in a 529 plan.

FACT: Investments across accounts within a 529 plan can be changed up to two times per calendar year and upon a change in the beneficiary. Also note that the account owner can change the beneficiary any time to another eligible "member of the family" (as defined under the Internal Revenue Code of 1986, as amended).

FICTION:
529 savings can be used only to pay for tuition.

FACT: In addition to tuition, assets in a 529 account can cover a variety of qualified higher education expenses including fees, certain room and board costs, and required equipment and supplies, as well as certain qualified expenses for special needs students. Qualified expenses for 529 plans also include computer equipment, software or internet access expenses used for college.

[5] The maximum contribution limit applies to accounts for the same beneficiary under all 529 college savings programs sponsored by the State of Nevada.

[6] In the event the donor does not survive the five year period, a pro-rated amount will revert to the donor's taxable estate.

[7] Ugift is a registered service mark of Ascensus Broker Dealer Services, Inc.

[8] Earnings on non-qualified withdrawals are subject to federal income tax and may be subject to a 10 percent federal tax penalty, as well as state and local income taxes. The availability of tax and other benefits may be contingent on meeting other requirements.

FICTION:
529 savings can be used only at schools in the state offering the plan.

FACT: Not true. The full value of a SSGA Upromise 529 Plan account can be used at an eligible educational institution including public or private 4–year colleges and universities, eligible trade and technical schools, 2–year junior colleges, and graduate schools anywhere in the U.S. and abroad. Generally, an eligible educational institution is one that participates in U.S. Department of Education student financial aid programs.

FICTION:
A trust is a better way for grandparents to help fund college.

FACT: A 529 account can be a great alternative to an irrevocable trust with the student as the beneficiary. Again, using the special gift tax exemption by frontloading a 529 plan account with contributions up to $70,000 ($140,000 if married and electing to split gifts) per beneficiary in one calendar year can reduce a taxable estate quickly because the money gets out of your estate faster than if you made contributions each year. For example, grandparents who gift $140,000 to open a 529 account for each of their four grandchildren immediately reduce their estate by $560,000 without gift tax implications. And they can repeat the same contributions every five years.[9] Trusts are more complicated and generally less tax efficient than a 529 plan. Income retained by a trust is taxed to the trust, while distributed income is taxed to the beneficiary. Notably, in 2017, trusts reach the highest tax bracket (39.6 percent) at just $12,500 of retained investment income.[10] 529 plans also typically have low administrative fees relative to the costs of establishing and administering a trust. And if held in the grandparent's name, a 529 plan account does not count as the student's asset when applying for federal financial aid, although distributions taken from a grandparent's account are generally reportable as student income.

FICTION:
Saving in a 529 plan hurts eligibility for federal financial aid.

FACT: Financial aid is a broad term that covers non–need–based merit scholarships, lower interest rate federal loans, need–based grants from colleges, and work study. Some families also take out private loans. The bottom line is that not all financial aid is a "gift" and interest rates on loans can vary dramatically, based on whether they are government subsidized or private.

The Free Application for Federal Student Aid (FAFSA) determines need–based aid. And, it's good news that this FAFSA analysis treats a 529 account for a dependent student as a parental asset, assessed at a maximum 5.6 percent when determining the Expected Family Contribution (EFC) towards college costs. Assets held in the student's name are assessed at 20 percent when calculating the EFC.[11] Also, withdrawals from your 529 plan account do not add to your family's income, which would reduce the next year's eligibility for financial aid. Note that withdrawals from a 529 account opened by a grandparent or another non–parent do, indeed, count as student income. For that reason, many families that receive financial aid choose to reserve grandparent and other accounts for the final year of college when they would not be filing a FAFSA to qualify for financial aid for the following year.

FICTION:
If the child doesn't go to college, the 529 account money is lost.

FACT: The person who owns the 529 account controls it. That means if the first beneficiary decides not to attend college, the account owner can change the beneficiary to another eligible "member of the family" (as defined under the Internal Revenue Code of 1986, as amended) with no penalty. The 529 account can also be left in the first beneficiary's name or grandchildren's names, creating an education legacy as assets are passed down between generations.[12] It's also possible to take a non–qualified withdrawal of the account assets, however, account earnings would be subject to federal income tax and may be subject to a 10 percent federal penalty tax, as well as state and local income taxes.

[9] In the event the donor does not survive the five year period, a pro-rated amount will revert to the donor's taxable estate.

[10] "2017 Form 1041-ES: Estimated Income tax for Estates and Trusts." Department of the Treasury, Internal Revenue Service. Accessed on 19 Jan. 2017 at: https://www.irs.gov/pub/irs-access/f1041es_accessible.pdf

[11] Hurley, Joseph F. "Family Guide to College Savings." *Savingforcollege*. 24 July 2014. Web. 3 Sep. 2015. <http://www.savingforcollege.com/financial_aid_basics/financial_aid_and_your_savings.php>.

[12] Rules regarding gifts and generation-skipping transfer tax may apply in the case of a change of beneficiary. You should consult with a tax advisor when considering a change of beneficiary.

FICTION:
If the student receives a scholarship and doesn't need the money saved in the 529 account, the account owner is stuck paying a big penalty.

FACT: If the scholarship covers only tuition, you can take a distribution up to the amount of the scholarship from the 529 account to pay for expenses such as room and board, books and other required supplies. Any earnings would be taxable but would not be subject to the 10 percent federal penalty tax.

If additional savings remain unused in the 529 account, you can change the beneficiary of the account to an eligible "member of the family" of the current beneficiary (as defined under the Internal Revenue Code of 1986, as amended) with no penalty. Alternatively, if you chose to take a non–qualified withdrawal of the account, earnings (but not contributions) would be taxed at the rate of the recipient of the distribution (i.e. the beneficiary's tax rate if you make the distribution payable to the beneficiary or your tax rate if the distribution is payable to you), and the earnings would also be subject to the 10 percent federal tax penalty.

FICTION:
All 529 plans are the same.

FACT: All 529 plans offer federal (and usually state) tax–free earnings, but there are other differences to consider such as fees, investments offered, investment philosophy, and age–based options. Additionally, any favorable state tax and other benefits offered under a particular 529 plan should be taken into consideration. The SSGA Upromise 529 Plan is one of a few college savings plans powered by SPDR ETFs, utilizing low cost passive exchange traded funds.

FICTION:
There's no real benefit to investing in a 529 plan with ETFs.

FACT: The breadth of ETFs enables you to build more diversified portfolios. Certain asset classes (small cap emerging markets, international TIPS, and international REITs) typically aren't available in a passive mutual fund. Portfolio managers of the SSGA Upromise 529 Plan use ETFs as a precision tool to create diversified global portfolios based on a tactical asset allocation investment process.

Additionally, with the range of fixed income ETFs, College Date Portfolios in the SSGA Upromise 529 Plan own core bonds, TIPS, high yield and short–term corporate bond ETFs. It is easy to adjust bond exposures as interest rate forecasts change. While the duration of longer term College Date Portfolios is between two and five years, duration is less than 1.5 years in the 2018, 2015 and College Today portfolios, designed to potentially be giving them low sensitivity to interest rate hikes.

FICTION:
The 529 plan's income tax benefits will soon expire.

FACT: The tax benefits afforded to 529 plans are not currently set to expire. However, given that such tax benefits are established under the Internal Revenue Code, they are subject to being amended or eliminated through legislation. The good news is that 529 plans have received bipartisan support in Congress. Congress recognizes the benefits of helping families save for college and aims to strengthen college savings plans through legislation.[13]

[13] Toner, Matthew. "529 plans and their tax benefits are here to stay." *Savingforcollege.* 27 Jan. 2015. Web. 3 Sep. 2015. <http://www.savingforcollege.com/articles/529-plans-and-their-tax-benefits-are-here-to-stay-717?utm_source=SFC_special_email&utm_medium=SFC_pro_email&amp>.

Definitions

Qualified Educational Expenses include amounts paid for tuition, fees, computers and other related expense for an eligible student that are required for enrollment or attendance at an eligible educational institution.

Source: https://www.irs.gov/Individuals/Qualified-Ed-Expenses

Roth Individual Retirement Account (Roth IRA) is an individual retirement plan that bears many similarities to the traditional IRA, but contributions are not tax deductible and qualified distributions are tax free. Similar to other retirement plan accounts, non–qualified distributions from a Roth IRA may be subject to penalty upon withdrawal.

Source: http://www.investopedia.com/terms/r/rorthira.asp

Coverdell Education Savings Account is a tax–deferred trust account created by the US government to assist families in funding educational expesnses for beneficiaries 18 years old or younger. While more than one account can be set up for a single beneficiary, the total maximum contribution for any single beneficiary is $2,000.

Source: http://investopedia.com/terms/c/coverdellesa.asp

Asset allocation is the implementation of an investment strategy that seeks to balance risk versus reward by adjusting the percentage of each asset class in an investment portfolio according to the investor's risk tolerance, financial goals and investment horizon.

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The statements and opinions expressed are subject to change at any time, based on market and other conditions. State Street cannot guarantee the accuracy of completeness of third party statements or data.

Investing involves risk including the risk of loss of principal. Investment returns will vary depending upon the performance of the Portfolios you choose. Except to the extent of FDIC insurance available for the Savings Portfolio, you could lose all or a portion of your money by investing in the Plan, depending on market conditions. Account Owners assume all investment risks as well as responsibility for any federal and state tax consequences.

ETFs trade like stocks, fluctuate in market value and may trade at prices above or below the ETFs' net asset value. Brokerage commissions and ETF expenses will reduce returns.

Diversification does not ensure a profit or guarantee against loss.

The SSGA Upromise 529 Plan (the "Plan") is administered by the Board of Trustees of the College Savings Plans of Nevada (the "Board"), chaired by Nevada State Treasurer. Ascensus Broker Dealer Services, Inc. (ABD) serves as the Program Manager. ABD has overall responsibility for the day–to–day operations, including distribution of the Plan and provision of certain marketing services. State Street Global Advisors (SSGA) serves as Investment Manager for the Plan except for the Savings Portfolio, which is managed by Sallie Mae Bank, and also provides or arranges for certain marketing services for the Plan. The Plan's Portfolios invest in either (i) Exchange Traded Funds and mutual funds offered or managed by SSGA or its affiliates; or (ii) a Federal Deposit Insurance Corporation (FDIC)– insured omnibus savings account held in trust by the Board at Sallie Mae Bank. Except for the Savings Portfolio, investments in the Plan are not insured by the FDIC. Units of the Portfolios are municipal securities and the value of units will vary with market conditions.

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For more information about the SSGA Upromise 529 Plan ("the Plan") download the Plan Description and Participation Agreement or request one by calling 1-800-587-7305. Investment objectives, risks, charges, expenses, and other important information are included in the Plan Description; read and consider it carefully before investing. Ascensus Broker Dealer Services, Inc. ("ABD") is distributor of the Plan.

Before investing in the Plan, you should consider whether your client or the client's beneficiary's home state offers a 529 plan that provides its taxpayers with favorable state tax and other benefits that are only available through investment in the home state's 529 plan.

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