Education Savings Conversation

A FUNDING SOLUTIONS ROAD MAP

SSGA Upromise529
POWERED BY SPDR® ETFs

Administered by
Nevada State Treasurer
Dan Schwartz

The majority of people feel that education can lead to better employment opportunities and higher earning potential.[1]

K-12 Private Education

A private school education may put students at an advantage for their long-term educational and professional success. However, this early advantage comes at a cost.

College Education

While 9 in 10 parents expect their child will attend college, only 4 in 10 have created a payment plan prior to enrollment.[2] That disconnect is worth talking about, especially as college costs continue to increase faster than inflation and financial aid has not kept pace with tuition hikes.[3]

This guide can help direct and inform these important conversations about saving for education.

Color-coded sections explore the unique savings situations and concerns of parents, grandparents and young professionals — and highlight how specific benefits of 529 College Savings Plans can help each group meet their college funding goals.

[1] Nielsen. "A Gateway to a Better Life." Sep. 10 2013. www.nielsen.com/us/en/insights/reports/2013/a-gateway-to-a-better-life.html.

[2] Sallie Mae, "How America Saves for College 2017." 2018. www.salliemae.com/assets/Research/HAP/HowAmericaPaysforCollege2017.pdf.

[3] "Average Rates of Growth of Published Charges by Decade." Feb. 28 2018. https://trends.collegeboard.org/college-pricing/figures-tables/average-rates-growth-published-charges-decade.

How much does education cost?
Probably more than you think.

The US National average for one year of K-12 private school tuition is $9,263 for elementary schools and $14,017 for high schools.[4]

During the 2016-17 academic year families spent an average of $23,757 on one year of college — up 38 percent from the 2007-08 academic year.[5]

When it comes to college, "We'll pay the tuition out of cash flow" or "We're banking on financial aid" are likely not viable funding plans.

AVERAGE COLLEGE COSTS

$20,770	In-state, public four-year[6]
$36,420	Out-of-state, public four-year[6]
$49,950	Private non-profit, four-year[6]
$69,000+	Some four-year, private colleges[7]

4 "Average Private School Tuition Cost (2017-2018)." Private School Review. www.privateschoolreview.com/tuition-stats/private-school-cost-by-state.

5 Sallie Mae, "How America Saves for College 2017." 2018. www.salliemae.com/assets/Research/HAP/HowAmericaPaysforCollege2017.pdf.

6 College Board, "Trends in College Pricing: 2017." 2017. https://trends.collegeboard.org/sites/default/files/2017-trends-in-college-pricing_0.pdf.

7 Martin, Emmie. "The 50 most expensive colleges in America." www.businessinsider.com/most-expensive-colleges-in-the-us-2017-2.

A lack of college planning means student loans to fill savings gaps

The fact that "**student** and **parent** borrowing" accounts for 27 percent of college funding denotes a widespread lack of college planning.[8]

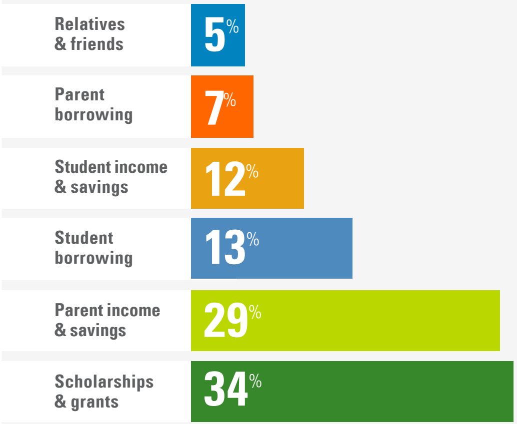
Apart from home mortgages, student loan debt is the largest form of debt in the United States and is quickly becoming a generational albatross.[9]

Today, over 44 million young Americans are struggling to pay off over $1.48 trillion in student loans, with debt amounting to over $620 billion higher than the national credit card debt total.[10]

Recent studies show that the increasing level of student loan debt is resulting in fewer millennials buying homes, starting businesses and getting married in their post-collegiate years.[11]

HOW THE TYPICAL FAMILY PAID FOR COLLEGE IN 2014–15[7]

And the average percent of total cost paid from each source



[8] Sallie Mae, "How America Saves for College 2017." 2017. https://www.salliemae.com/research/how-america-pays-for-college/.

[9] College Savings Plan Network 529 Report, September 2016. www.collegesavings.org/wp-content/uploads/2015/09/0926_CSPNReport-FINAL.pdf.

[10] "A Look at the Shocking Student Loan Debt Statistics for 2018." Student Loan Hero. January 24, 2018. www.studentloanhero.com/student-loan-debt-statistics/.

[11] Fay, Bill. "Students & Debt." Debt.org. 2017. www.debt.org/students/.

Saving for college means less borrowing — *not a big reduction in federal financial aid*

Roughly half of Americans have a college savings plan in place. These individuals end up saving 46 percent more than those who save without a structured plan.[12]

A family's **income, *not its savings,*** is the greatest factor in determining eligibility for financial aid. And federal financial aid is a long shot for families with incomes of $150,000 or more with any investments outside of retirement accounts.

Now, the good news: Uncle Sam's Expected Family Contribution (EFC) formula determines financial aid eligibility factors in a maximum of just 5.64 percent of parents' savings and 20 percent of the student's assets toward annual college costs according to FinAid.org.

So, if a family saves $50,000 for college in the parents' names, eligibility for federal aid would be reduced by approximately $2,800 in year one.

[12] Sallie Mae, "How America Saves for College 2016." 2016. www.news.salliemae.com/files/doc_library/file/HowAmericaSavesforCollege2016FNL.pdf.

Let’s evaluate education funding options

Deciding between various college savings products can feel like stepping into *Goldilocks and the Three Bears.*

No one option fits just right — and for every benefit, there seems to be a trade-off.

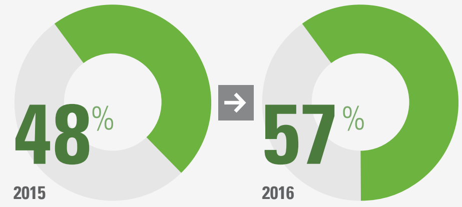
Coverdell Education Savings Accounts offer tax-deferred growth and tax-free withdrawals, but there are contribution limits of $2,000 a year and income phase-outs for parents. Custodial Accounts can be more tax efficient than saving in mutual funds, but the child controls the account and financial aid eligibility is more heavily impacted.

12.7 million savers have decided the tax-advantaged **529 College Savings Plan** is the right choice.14 And 529 plans can be especially valuable for families in higher tax brackets who can afford to save all or a substantial portion of education costs.

As of January 1, 2018, the Tax and Jobs Acts allows money saved in a 529 plan account to be withdrawn federal tax free to pay for up to $10,000 tuition for K-12 elementary or secondary public, private or parochial schools. In some states, there may also be additional state tax benefits for contributions made towards K-12 tuition or for college expenses from a 529 plan account. Conforming states may allow account holders to claim tax deductions and credit for these contributions.[15]

See a comprehensive comparison of college savings options →

PERCENTAGE OF AMERICANS SAVING FOR COLLEGE [12]



[13] Sallie Mae, “How America Saves for College 2016.” 2016. news.salliemae.com/sites/salliemae.newshq.businesswire.com/files/doc_library/file/HowAmericaSaves2016_FINAL.pdf

[14] College Savings Plans Network 529 Report, September 2016. www.collegesavings.org/wp-content/uploads/2015/09/0926_CSPNReport-FINAL.pdf.

[15] Flynn, Kathryn. “529 Savings Plans and Private School Tuition.” Savingforcollege.com, Saving for College, LLC, 15 Feb. 2018, www.savingforcollege.com/article/529-savings-plans-and-private-school-tuition.

Comprehensive comparison of education savings options

2017 Rules	529 Plan	Coverdell Education Savings Accounts	UGMA/UTMA Custodial Accounts	Mutual Funds
Federal Gift Tax Treatment	Contributions treated as completed gifts, apply towards $15,000 annual exclusion, or up to $75,000 with 5-year election. Money saved in a 529 plan account can be withdrawn federal tax free to pay for up to $10,000 tuition for K-12 elementary or secondary public, private or parochial schools[16]	Contributions treated as completed gifts; apply $15,000 annual exclusion	Transfers treated as completed gifts; apply $15,000 annual gift exclusion	No gift involved; direct payments of tuition not considered gifts
Federal Estate Tax Treatment	Value removed from donor's gross estate; partial inclusion for death during a 5-year election period	Value removed from donor's gross estate	Value removed from donor's gross estate unless donor remains as custodian	Value included in the owner's gross estate
Maximum Investment	Established by the program; some as much as $520,000 per beneficiary	$2,000 per beneficiary per year combined from all sources	No limit	No limit
Able to Change Beneficiary	Yes, to another member of the beneficiary's family	Yes, to another member of the beneficiary's family	No; represents an irrevocable gift to the child	Not applicable
Time/Age Restrictions	None unless imposed by the program	Contributions before beneficiary reaches age 18; use of account by age 30	Custodianship terminates when minor reaches age established under state law (generally 18 or 21)	None
Income Restrictions	None	Ability to contribute phases out for incomes between $190,000 and $220,000 (joint filers) or $95,000 and $110,000 (single)	None	None
Investments	Menu of investment strategies as developed by the program	Broad range of securities and certain other investments	As permitted under state laws	Mutual funds
Use for Non-Qualifying Expenses	Withdrawn earnings subject to federal tax and 10 percent penalty	Withdrawn earnings subject to federal tax and 10 percent penalty	Funds must be used for benefit of the minor	No restrictions

Source: https://www.savingforcollege.com/articles/how-much-can-you-contribute-to-a-529-plan-in-2017.

[16] Flynn, Kathryn. "529 Savings Plans and Private School Tuition." Savingforcollege.com, Saving for College, LLC, 15 Feb. 2018, www.savingforcollege.com/article/529-savings-plans-and-private-school-tuition.

529 plans offer an unprecedented blend of tax efficiency and flexibility

529 plans offer triple tax advantages.

Accounts compound tax-free, qualified distributions for education expenses are tax-free, and most states offer additional tax breaks.[17] Also, money can be withdrawn federal tax free to pay for up to $10,000 tuition for K-12 elementary or secondary public, private or parochial schools.[18]

Accounts remain under the account owner's control.

Assets can be reclaimed at any time by paying taxes and a 10 percent penalty on any account gains,or by transferring the account to another beneficiary.

Flexible contribution limits are set by the plans themselves.

Contribution limits are as high as $520,000 per beneficiary. An SSGA Upromise 529 Plan Account has no enrollment fee and can be opened for as little as $50 a month with an Automatic Investment Plan or an initial contribution of just $15.

There's a special gift tax exclusion for gifting.

Plans permit five years of gifts to a 529 beneficiary in a single year, without triggering the federal gift tax.[16] That amounts to $75,000 ($15,000 annual gift exclusion x 5) for individuals and $150,000 for married couples.

A 529 account is treated as a parental asset.

This federal financial aid formula means that, for a 529 account, no more than 5.64 percent of the account's value is considered when determining the Expected Family Contribution (EFC) toward college costs.

Click the color-coded tabs to learn more about the benefits of a 529 College Savings Plan.

[17] 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.

[18] Flynn, Kathryn. "529 Savings Plans and Private School Tuition." Savingforcollege.com, Saving for College, LLC, 15 Feb. 2018, www.savingforcollege.com/article/529-savings-plans-and-private-school-tuition.

[19] In the event the donor does not survive the five-year period, a pro-rated amount will revert to the donor's taxable estate. Rules regarding gifts and generation skipping transfer tax may apply in the case of a change in beneficiary. You should consult with your tax advisor when considering a change of beneficiary.

529 plan benefits appeal to different investors: Do you identify with any of these education savers?

The Miller & Smith families are on different ends of the college funding spectrum. Susan & Tom Miller struggle to set aside money and are counting on scholarships for their high school student, while Michelle & John Smith already have college money set aside for their preschooler.

Eileen & Joe Alverez are big believers in education. Between them, they hold four college degrees and are proud to have educated their three children, with two of them completing MBAs. They find nothing more appealing than helping fund the educations of their four grandchildren from Kindergarten through college, and they dream of creating an education legacy.

Just recently married, **Jean & Pete Lynch** are considering pursuing graduate degrees but, perhaps because of their struggle with their own undergraduate loans, they worry about the cost. They also understand the importance of getting a head start on saving for college for the family they hope to have.

The Millers & The Smiths

The Millers who have not started to save for college and **the Smiths** who have actively saved for college both find tax-efficient and flexible 529 plans have a role to play in their college funding strategy.

LET'S START THE CONVERSATION

How did your family pay for college?

Are you currently paying back student loans?

What types of colleges do you see in your child's future?

Do you expect your child/children to help pay for college?

What are your expectations for federal financial aid?

Do you see potential for private scholarships?

Are there family members who might want to help you fund college for your children?

See common investor questions & answers →

The Millers & The Smiths

Common Investor Questions	For more information, visit these tabs
How can I keep more of what I earn in investment accounts to pay for college?	**Tax Advantages**
If my child does not go to college or gets a scholarship, what happens to the money I have saved in a 529 account?	**Account Control**
Given our family's high income, is our family eligible for/able to benefit from a 529 account?	**Contribution Limit**
How will saving for college impact our chances of getting financial aid?	**Financial Aid**
How can other family members help us save for college?	**Gifting Rules**

Download additional resources at ssga.upromise529.com/advisor.

Eileen & Joe Alverez

Eileen & Joe Alverez are very interested in discussing how best to fund their grandchildren's education.

What's more, because education is a "feel-good topic," discussing education funding is an easy way to begin the estate planning discussion with the goal of moving assets out of their estate.

A recent survey of grandparents revealed that more than half were, or planned on, **contributing to their grandchildren's college education**.[20]

[20] "How grandparents can help fund college." Fidelity. November 29, 2017. www.fidelity.com/viewpoints/personal-finance/grandparents-can-help-fund-college.

LET'S START THE CONVERSATION

Would you like to share your wealth with your grandchildren?

Are you interested in establishing an education legacy?

Are you taking Required Minimum Distributions (RMDs) that you don't need to meet expenses?

Will your grandchildren attend private school for grades K-12?

Will your grandchildren be candidates for financial aid?

See common investor questions & answers →

Eileen & Joe Alverez

Common Investor Questions	For more information, visit these tabs	
How can I share my wealth with my grandchildren in a tax-efficient way?	Tax Advantages	Gifting Rules
I want to fund my grandchild's education, but I worry about running out of money in retirement and the possibility my grandchild won't go to college.	Account Control	
Will my savings hurt my grandchild's chances of getting financial aid?	Financial Aid	
Should I open a 529 account for my grandchild or contribute to one my child has set up for my grandchild?	Gifting Rules	

Download additional resources at ssga.upromise529.com/advisor.

Jean & Pete Lynch

Jean & Pete Lynch appreciate the flexibility and convenience of saving for themselves and their future in one easy-to-open and easy-to-manage 529 account.

Grad student debt 2012 $57,600

Grad student debt 2004 $40,200

+43%

Median graduate student loan debt rose 43 percent in eight years (from $40,200 in 2004 to $57,600 in 2012).[21]

[21] Gitlen, Jeff. "Student Loan Debt Statistics 2018." Lendedu. July 1, 2016. www.lendedu.com/blog/student-loan-debt-statistics.

LET'S START THE CONVERSATION

Do you anticipate going back to school?

Do you currently have any student loans?

Are you planning to have children? If so, do you expect to fund 100 percent of K-12 private school tuition or college costs?

Would you like to help fund the college costs of family members?

See common investor questions & answers →

Jean & Pete Lynch

Common Investor Questions	For more information, visit these tabs
We are years away from having children, why start saving for college now?	Tax Advantages
How can I save for my child's education when I'm strapped for cash/paying for graduate school/still paying off my own student loans?	Contribution Limits
Is there an easy way to contribute to my niece's/nephew's college educations?	Gifting Rules
What if I save for graduate school in a 529 account and decide not to go?	Account Control

Download additional resources at ssga.upromise529.com/advisor.

Tax Advantages

In 2017, 13 percent of families utilized a 529 plan to help pay for college.[22]

It's this simple . . .

529 plans offer tax-deferred investment growth and federal tax-free withdrawals when used to pay for up to $10,000 in K-12 private school tuition per year and for qualified higher education expenses at any educational institution where federal student aid is available.[23]

Eligible institutions include K-12 public, private or parochial schools, private colleges, public universities, community colleges, graduate schools and trade schools around the country. The school does not have to be located in the state sponsoring the 529 plan. Foreign schools may also be eligible.

In addition to tuition, assets in a 529 account can be used to 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.

[22] Sallie Mae, "How America Pays for College 2016." 2016. www.salliemae.com/research/how-america-pays-for-college/.

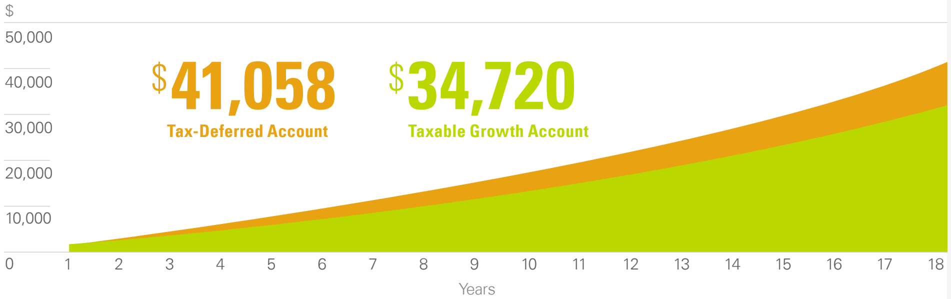
[23] Earnings on non-qualified withdrawals are subject to federal income tax and may be subject to a 10 percent federal penalty tax, as well as state and local income taxes. The availability of tax or other benefits may be contingent on meeting other requirements.

Tax Advantages

529 plans have no age limits, so it's never too late to open an account and benefit from the 529's tax advantages. Even if the account's held for just a handful of years, the 529 plan's tax-deferred growth and tax-free distributions for qualified expenses can mean more money to pay for education.

Frontloading a 529 account can be an effective way for investors to reduce their taxable estate.[24]

Tax Advantages Can Make Your Dollars Work Harder



Source: Ascensus College Savings.

Assumptions: $2,500 initial investment with subsequent monthly investments of $100 for a period of 18 years; annual rate of return on investment of 5 percent and no funds withdrawn during the time period specified; taxpayer is in a hypothetical 30 percent income tax bracket for all options at the time of contributions and distribution. This hypothetical is for illustrative purposes only. It does not reflect an actual investment in any particular 529 plan or any taxes or penalties payable/due upon distribution.

MAIN POINTS

1. Tax-deferred investment growth
2. Tax-free withdrawals to pay for qualified higher education expenses
3. Possible additional tax benefits in some states

[24] In the event the donor does not survive the five-year period, a pro-rated amount will revert to the donor's taxable estate. Rules regarding gifts and generation skipping transfer tax may apply in the case of a change in beneficiary. You should consult with your tax advisor when considering a change of beneficiary.

Account Control

As the account owner, you will have control over the 529 account and can determine how the money is invested and when the money is used.

If your child or grandchild, the "account's beneficiary," decides to not use their attributed funds for qualified education expenses, you, as the account owner, can change the beneficiary to another eligible "member of the family" (as defined under the US Internal Revenue Code) with no penalty. The 529 account can also be left in the first beneficiary's name, creating an education legacy as assets are passed down between generations.[25]

At any time, and for any reason, it's also possible to take a non-qualified withdrawal of the account assets. Perhaps a parent loses a job, or unexpected health expenses mean a grandparent now risks running out of money in retirement. For non-qualified withdrawals, 529 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.

Notably, other types of gifts (trusts, family partnerships, UGMA/UTMA accounts, etc.) are not revocable, making the 529 plan unique in this respect. What's more, your 529 contributions are treated as completed gifts from you to the 529 account beneficiary, thereby removing assets from your taxable estate.[26]

[25] 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.

[26] In the event the donor does not survive the five-year period, a pro-rated amount will revert to the donor's taxable estate. Rules regarding gifts and generation skipping transfer tax may apply in the case of a change in beneficiary. You should consult with your tax advisor when considering a change of beneficiary.

Account Control

If savings remain unused in the 529 account, you can change the beneficiary of the account with no penalty or take a non-qualified withdrawal of the account earnings.

There is similar flexibility if the student receives a scholarship and doesn't need the money saved in the 529 account. If the scholarship covers only tuition, you can use the 529 account to pay for college expenses such as room and board, books and other required supplies. If additional funds remain in the 529 account, you can take a non-qualified withdrawal. Earnings would be taxable but would not be subject to the 10 percent federal penalty tax.

MAIN POINTS

1. The account owner controls the 529 account
2. Non-qualified withdrawals are possible (with penalty) at any time
3. The beneficiary can be changed without penalty

Contribution Limits

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. In contrast, higher-net-worth investors can receive all the federal tax benefits of investing in a 529 plan. Also, the higher the ordinary income tax bracket, the more money may be saved in taxes on tax-free qualified withdrawals.[27]

≤ $520,000

Up to $520,000 can be invested in a 529 plan account per beneficiary. (Each state sets its own limits.) In contrast, the federal government limits contributions to Coverdell Education Savings Accounts to just $2,000 a year.

In 2017, 65 percent of college costs were covered by savings, income or loans from parents, relatives, friends or students; leaving only 35 percent of college costs to be covered by scholarships and grants.[28]

[27] 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.

[28] "How America Pays for College 2017." Sallie Mae. 2017. www.salliemae.com/assets/Research/HAP/HAP2017_infographic.pdf.

Contribution Limits

≤ $15,000

≤ $30,000

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.[25]

$50

On the other end of the spectrum, for those who are just beginning to save for college, the SSGA Upromise 529 Plan has no enrollment fee and you can open an account for as little as $50 a month with an Automatic Investment Plan or make an initial contribution of $15. Even saving a small amount per month can pay off in the long run with the potential tax-deferred growth of a 529 plan.

MAIN POINTS

1. 529 plans have no income restrictions for investing
2. Up to $400,000 can be invested per beneficiary (max amounts may vary by plan)
3. Anyone can contribute up to $14,000 a year ($28,000 if married) per beneficiary without triggering a federal gift tax

[29] In the event the donor does not survive the five-year period, ap ro-rated amount will revert to the donor's taxable estate. Rules regarding gifts and generation skipping transfer tax maya pply in the case of a change in beneficiary. You should consult with your tax advisor when considering a change of beneficiary.

Gifting

Parents, grandparents, aunts, uncles and friends can open a 529 account for a beneficiary.

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. Gift contributions can be made online or by check, so there's no extra paperwork.

Anyone can contribute up to $15,000 a year ($30,000 if married) per beneficiary to a 529 account without triggering a federal gift tax. Moreover, a special federal gift tax exemption for 529 plans permits contributions of up to $75,000 in one calendar year ($150,000 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.[30] That frontloaded contribution can be repeated every five years.

In particular, grandparents might choose to fund a 529 plan with Required Minimum Distributions (RMDs) from an IRA that they do not need to meet expenses. In a 529 account, any earnings on those re-invested assets would grow tax-deferred whereas earnings would be taxed should they be deposited in a certificate of deposit or brokerage account.

[30] In the event the donor does not survive the five-year period, apro-rated amount will revert to the donor's taxable estate . Rules regarding gifts and generation skipping transfer tax may apply in the case of a change in beneficiary. You should consult with your tax advisor when considering a change of beneficiary.

[31] Intuit, "The Gift Tax Made Simple." Accessed on March 28, 2018. www.turbotax.intuit.com/tax-tips/estates/the-gift-tax-made-simple/L5tGWVC8N.

ACCELERATED GIFTING (EXAMPLE)

$30,000 Joint gift x 5 Years

$150,000 Accelerated gift benefit allowed per beneficiary

Grandparents open a 529 account for each grandchild and distribute their funds equally throughout ($150,000 in this example).

$150,000 x 8 Grand children

$1,120,000

Removed from the grandparents taxable estate, in just one year with no impact on their federal lifetime gift tax exemption of $5.49 million,[31] all while retaining control of the assets.

Gifting

Importantly, while 529 contributions are treated as completed gifts from a tax perspective, it's always possible to take a non-qualified withdrawal of the account assets.

Because the 529 account owner remains in charge of the account, opening 529 plans for grandchildren can be a useful way for grandparents to move money out of their estate. In 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 account with contributions up to $75,000 ($150,000 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 $150,000 to open a 529 account for each of their four grandchildren immediately reduce their estate by $600,000 without gift tax implications. And they can repeat the same contributions every five years.[32]

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 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.

[32] In the event the donor does not survive the five-year period, a pro-rated amount will revert to the donor's taxable estate. Rules regarding gifts and generation skipping transfer tax may apply in the case of a change in beneficiary. You should consult with your tax advisor when considering a change of beneficiary.

MAIN POINTS

1. Gifting provides the ability to create an education legacy
2. Anyone can contribute up to $15,000 a year ($30,000 if married) per beneficiary
3. A front-loading provision permits five years of contributions in one year

Financial Aid

Financial aid is a broad term that covers need-based federal grants, non-need-based merit scholarships, low 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 5.64 percent when determining the Expected Family Contribution (EFC) toward college costs. The same holds true for young professionals saving for their own college costs. Assets held in the student's name are assessed at 20 percent when calculating the EFC.[33]

Withdrawals from your 529 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.

See the Appendix for more details on financial aid →

[33] Saving for College LLC, "Financial Aid Basics." Accessed on January 15, 2016. www.savingforcollege.com/financial_aid_basics/financial_aid_and_your_savings.php.

Financial Aid

As a student asset, 20 percent of the value of an UGMA/UTMA is factored into the family's annual EFC. 529 assets are assessed at just 5.64 percent for the EFC. The difference between 5.64 and 20 percent often prompts families to roll over money from a UGMA/UTMA account or Coverdell Education Savings Account (both held in students' names) into a 529 account (to be held in a parent's name).

If an UGMA account is worth $10,000, your family's EFC increases by $2,000, meaning if you qualify for federal financial aid, you receive less in federal grants, work-study and subsidized loans. If, however, you move the money into a 529 plan at any time before filing the FAFSA, the impact on your EFC is just $564, resulting in a greater potential for need-based federal financial aid.

MAIN POINTS

1. A 529 account is treated as parental asset and assessed at only 5.64 percent of the Expected Family Contribution
2. College savings held in a student's name are assessed at 20 percent
3. Withdrawals from a 529 account do not add to your family's income (those from a grandparent's account count as student's income)

SSGA Upromise 529 College Savings Plan

Comprised of Exchange Traded Funds (ETFs),[30] the SSGA Upromise 529 Plan offers a number of saving options — from age-based portfolios that require little in the way of management to portfolios investors can customize to suit their unique needs.

To Learn More

800.587.7305

P.O. Box 55578
Boston, MA 02205-5578

ssga.upromise529.com/advisor

8 COLLEGE DATE PORTFOLIOS

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 start date).

3 RISK-BASED PORTFOLIOS

These portfolios offer built-in tactical asset allocation and broad diversification.

1 **Aggressive**

2 **Moderate**

3 **Conservative**

15 STATIC PORTFOLIOS

Choose from 15 SPDR® ETFs to create your own personalized investment mix.

SAVINGS PORTFOLIO

Rely on a Federal Deposit Insurance Corporation (FDIC)-insured option (managed by Sallie Mae Bank).

[34] 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.

Appendix

What's Your Expected Family Contribution (EFC)?

Whether you have not started to save for college or are already on the road to funding college, it's important to know your Expected Family Contribution (EFC). Without taking the time to fill out the Free Application for Federal Student Aid (FAFSA), this chart can ballpark your EFC.

STEP 1 Locate your income in the AGI column.

STEP 2 Find the column at the top of the table that corresponds to the number of dependent children you have and follow that column down to the row that corresponds to your Adjusted Gross Income (AGI). The intersecting number is your EFC based only on parental income, not investments, retirement plan assets, or student income – which could increase your EFC.

For more information:

fafsa.ed.gov

2015-2016 Federal EFC Quick Reference Table

	Number of Dependent children			
AGI	1	2	3	4
$30,000	$1,088	$0	$0	$0
$32,500	$1,525	$692	$0	$0
$35,000	$1,961	$1,128	$0	$0
$37,500	$2,398	$1,565	$796	$0
$40,000	$2,823	$2,001	$1,232	$0
$42,500	$3,232	$2,438	$1,669	$779
$45,000	$3,327	$2,849	$2,105	$1,215
$47,500	$3,792	$3,258	$2,529	$1,652
$50,000	$4,224	$3,356	$2,938	$2,088
$52,500	$4,763	$3,820	$3,347	$2,497
$55,000	$5,230	$4,257	$3,457	$2,906
$57,500	$5,862	$4,796	$3,922	$3,315
$60,000	$6,401	$5,269	$4,375	$3,421
$62,500	$7,144	$5,901	$4,914	$3,885
$65,000	$7,764	$6,446	$5,407	$4,333
$67,500	$8,638	$7,190	$6,039	$4,872
$70,000	$9,511	$7,818	$6,609	$5,358
$72,500	$10,385	$8,692	$7,352	$5,990
$75,000	$11,259	$9,565	$8,009	$6,550
$80,000	$13,006	$11,312	$9,756	$7,940
$85,000	$14,753	$13,060	$11,503	$9,687
$90,000	$16,500	$14,807	$13,250	$11,435
$95,000	$18,023	$16,501	$14,997	$13,182
$100,000	$19,535	$18,014	$16,628	$14,929
$105,000	$21,047	$19,526	$18,140	$16,497
$110,000	$22,559	$21,038	$19,653	$18,009
$115,000	$24,072	$22,433	$21,047	$19,404
$120,000	$24,993	$23,236	$21,851	$20,207

2015-2016 Federal EFC Quick Reference Table

	Number of Dependent Children			
AGI	1	2	3	4
$125,000	$26,653	$25,184	$23,391	$21,748
$130,000	$28,311	$26,320	$24,934	$23,288
$135,000	$29,969	$27,978	$26,475	$24,831
$140,000	$31,627	$29,636	$28,015	$26,372
$145,000	$33,285	$31,294	$29,556	$27,912
$150,000	$34,943	$32,952	$31,096	$29,452
$155,000	$36,554	$34,563	$32,707	$30,946
$160,000	$38,156	$36,173	$34,318	$32,439
$165,000	$39,697	$37,757	$35,929	$33,873
$170,000	$41,237	$39,297	$37,493	$35,190
$175,000	$42,778	$40,838	$39,034	$36,624
$180,000	$44,318	$42,378	$40,574	$38,059
$185,000	$45,859	$43,918	$42,037	$39,494
$190,000	$47,399	$45,459	$43,471	$40,928
$195,000	$48,986	$47,046	$44,953	$42,410
$200,000	$50,574	$48,634	$46,435	$43,892
$205,000	$52,161	$50,200	$47,916	$45,374
$210,000	$53,749	$51,682	$49,398	$46,855
$215,000	$55,336	$53,164	$50,880	$48,337
$220,000	$56,924	$54,645	$52,361	$49,819
$225,000	$58,511	$56,127	$53,843	$51,300
$230,000	$59,991	$57,571	$55,287	$52,744
$235,000	$61,414	$58,994	$56,709	$54,167
$240,000	$62,837	$60,417	$58,132	$55,590
$245,000	$64,260	$61,839	$59,555	$57,013
$250,000	$65,683	$63,262	$60,978	$58,436
$425,000	$115,485	$113,065	$110,781	$108,238

The above chart is for illustrative purposes only.

Appendix

3 Steps to Getting Financial Aid	1 Submit the FAFSA	2 Find out if other financial aid forms are required	3 Search and apply for private scholarships
Where you can find applications	**FAFSA Website** https://fafsa.ed.gov.	**CSS/Financial Aid PROFILE Website** https://student.collegeboard.org/css-financial-aid-profile. Your college's financial aid office or website	Contact specific organizations directly, or use a search tool, such as **Scholarship Search** https://bigfuture.collegeboard.org/scholarship-search.
Where you can find helpful resources	**How to Complete the FAFSA** https://bigfuture.collegeboard.org/pay-for-college/financial-aid-101/how-to-complete-the-fafsa. **Free Webinar: Completing the FAFSA** https://bigfuture.collegeboard.org/get-started/for-parents/webinar-completing-fafsa-what-you-need-to-know.	**How to Complete the CSS/Financial Aid PROFILE** https://bigfuture.collegeboard.org/pay-for-college/financial-aid-101/how-to-complete-the-css-financial-aid-profile. **Free Webinar: Completing the PROFILE** https://secure-media.collegeboard.org/digitalServices/swf/css-profile/css-financial-aid-profile.html.	**How to Apply for a Scholarship** https://bigfuture.collegeboard.org/pay-for-college/grants-and-scholarships/how-to-apply-for-a-college-scholarship.

To be considered for financial aid — money given or loaned to you to help you pay for college — you have to apply. Apart from applying to the college itself, the financial aid application process usually has its own forms, deadlines and requirements — and you don't wait to be admitted to a college before applying for financial aid.

Definitions

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

Source: www.irs.gov/pub/irs-pdf/p970.pdf.

Coverdell Education Savings Account is a tax-deferred trust account created by the US government to assist families in funding educational expenses 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: www.investopedia.com/terms/c/coverdellesa.asp.

Custodial Account is an account created at a bank, brokerage firm or mutual fund company that is managed by an adult for a minor that is under the age of 18 to 21 (depending on state legislation).

Source: www.investopedia.com/terms/c/custodialaccount.asp.

Required Minimum Distribution (RMD) is the minimum amount you must withdraw from your retirement account each year. You generally have to start taking withdrawals from an IRA, SEP IRA, SIMPLE IRA, or retirement plan account when you reach age 70½.

Source: www.irs.gov/Retirement-Plans/Retirement-Plans-FAQs-regarding-Required-Minimum-Distributions.

Asset Allocation 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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Before you invest, consider whether your or the beneficiary's home state offers any state tax or other state benefits such as financial aid, scholarship funds, and protection from creditors that are only available for investments in that state's qualified tuition program. Investors should consult their legal, tax and financial advisors before making any financial decisions.

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