# Saving for Future Education Costs with a 529 Plan

## Frequently Asked Questions

Invesco

**What is a 529 Plan?** A Section 529 qualified education savings plan is a tax-advantaged state-administered investment program that is authorized under Internal Revenue Code Section 529. These plans allow investors to save money in an account in which the earnings will grow free from federal income tax, and when used to pay for "qualified higher education expenses," may be withdrawn federal income tax-free.[1] In many states, a participant can receive special state incentives, including state tax treatment that mirrors the federal tax treatment, tax deductions/credits and/or other state tax benefits, based on participation in their state's program(s).

**How does a 529 qualified education savings program work?** Savings plans (also known as investment plans) enable participants to save money in a qualified education savings account on behalf of a designated beneficiary. Amounts contributed, and any earnings on the account may then be used to pay the beneficiary's qualified higher education expenses. Contributions can vary, depending on the individual savings goals. The plans offer various investment options that provide a variable rate of return usually based on stock or bond funds, although some plans offer investment options that guarantee a minimum rate of return.

**Who can be a beneficiary?** Generally, anyone can be named the beneficiary of a 529 account regardless of their relationship to the person who establishes the account. You can even establish an account with yourself as the named beneficiary. The only requirement is that the beneficiary must be a US citizen or a resident alien, and must have a social security number or federal tax identification number.

**Can a beneficiary have more than one account?** Yes. Since only one account owner can be named per account, family members may choose to open their own account for the same beneficiary.

**Can anyone open a 529 account? What about grandparents?** A 529 account can be opened by anyone. Grandparents, other relatives or family friends can all be account owners, or simply choose to contribute to an existing account. In most states, a trust, corporation, non-profit or government entity can also open an account.

**Does my child have to go to an in-state school?** No. Funds can be used at any eligible educational institution in the country to pay for qualified higher education expenses. "Eligible educational institutions" are accredited post-secondary educational institutions offering credit toward a bachelor's degree, an associate's degree, a graduate-level or professional degree, or another recognized post-secondary credential. Certain proprietary institutions and post-secondary vocational institutions and certain institutions located in foreign countries are also eligible educational institutions. To be eligible, the institution must participate in US Department of Education student aid programs.

**What if my child doesn't go to college?** You have several options available if the beneficiary decides not to go to college:

+ Change the beneficiary to a member of the beneficiary's family.
+ Defer use of your savings and leave contributions invested in the account.
+ Withdraw the assets in your account for a "non-qualified" distribution (a distribution that is not for qualified higher education expenses). Earnings (but not contribution amounts) would be subject to state and federal tax plus a 10% federal tax penalty on the earnings.

**What if my child is in high school? Is it too late to open an account?** It is never too late to save for higher education. You may open an account for an individual of any age, and the account may be used immediately.

**What if my beneficiary receives a scholarship?** Earnings (but not contributions) on the amount you withdraw would be taxed at the scholarship recipient's tax rate, but will not be subject to the 10% additional federal tax penalty. You can also, of course, use your funds to pay for expenses not covered by the scholarship, such as room and board, books and other required supplies.

1 Earnings on non-qualified withdrawals may be subject to federal income tax and a 10% federal penalty tax, as well as state and local income taxes. Tax and other benefits are contingent on meeting other requirements, and certain withdrawals are subject to federal, state, and local taxes.

**Who qualifies as a family member of the beneficiary?** A qualifying family member includes:

+ Natural or legally adopted children
+ Parents or ancestors of parents
+ Siblings or stepsiblings
+ Stepchildren
+ Stepparents
+ First cousins
+ Nieces or nephews
+ Aunts or uncles

In addition, the spouse of the beneficiary or the spouse of any of those listed above also qualifies as a family member of the beneficiary.

**Are there age or income limitations for participating in a 529 plan?** Anyone can participate in a 529 plan regardless of the income of the account owner and in most states, regardless of the age of the beneficiary.

**How can I change the beneficiary on an account?** Each 529 plan can provide the forms necessary for changing the beneficiary on an account. Contact your 529 plan to determine the specific requirements and forms necessary to complete this procedure. This can be done online at **invesco.com/college-bound-529/employerplan** or by contacting CollegeBound 529 directly at 877 615 4116. Depending on the relationship of the new and old beneficiaries, changing the beneficiary of an account may trigger a taxable event, which could also include a penalty, gift tax or both.

**Once an account is established, who controls the investments?** Many states have chosen to contract with an investment manager to work with the state to develop investment portfolios and options that will help investors meet their college savings needs. Federal law prohibits the investor from having direct control over the selection of specific investments; therefore, the state and the investment manager typically offer multiple savings options for the investor to choose from when they open an account. The account owner may change investment options subject to certain federal tax law limitations.

**Who can contribute to an account?** Generally, anyone can contribute to an account for any beneficiary. However, you should contact the 529 plan of your choice to determine any restrictions that may apply. You may find that you will only be eligible for specific state tax incentives by being recognized as the account owner. You may contribute directly to your CollegeBound 529 account by writing a check directly (outside of payroll) and referencing your child's account number in the memo (make checks payable to "CollegeBound 529") and mail to:

*Regular Mail*

CollegeBound 529
PO Box 55987
Boston, MA 02205-9722

*Overnight Delivery*

CollegeBound 529
95 Wells Ave., Suite 155
Boston, MA 02459-3204

**What are the most common investment options offered by Section 529 savings/investment plans?** The most common investment option is the age-based allocation strategy in which the age of the beneficiary determines the specific mix of investments. As the child ages, your investment mix is automatically reallocated and becomes more conservative as the beneficiary approaches college. There are three risk portfolios; Conservative, Moderate and Aggressive, along with Individual portfolios, which include mutual funds and ETFs.

**Can you change investment options once you have opened an account?** You may transfer all or any portion of the funds already invested in a particular investment option to another investment option twice per calendar year or upon a change of the beneficiary of your savings trust account to a member of the family of the beneficiary. However, each time a new contribution is made to an account, the investor can select a different investment option for the new contribution to the plan.

**Can a 529 be used for K-12 costs?** Yes. Families with children in grades K-12 can take federal tax-free withdrawals of up to $10,000 per year to pay for public, private, religious elementary or secondary school tuition. However, whether K-12 tuition will qualify for state tax benefits is still being determined on a state by state basis.

**Can a 529 plan be used to repay student loans?** The recently passed Secure Act allows families to take tax-free 529 plan distributions for student loan repayments of an aggregate lifetime limit of $10,000 in qualified student loan repayments per 529 plan beneficiary and $10,000 per each of the beneficiary's siblings. Siblings may include a brother, sister, stepbrother or stepsister. Principal and interest payments toward a qualified education loan will be considered qualified 529 plan expenses. However, the portion of the student loan interest that is paid with tax-free 529 plan earnings is not eligible for student loan interest deduction.

**Can a 529 plan be used for an apprenticeship program?** The Secure Act also allows 529 plans to be used to pay for apprenticeship programs. To be a qualified 529 expense, the apprenticeship program must be registered and certified with the Secretary of Labor under Section 1 of the National Apprenticeship Act.

**Can an existing 529 account be rolled over to another 529 program?** Yes. The account owner can choose to move funds from one state's 529 plan to another states' plan one time within a 12-month period for the same beneficiary.

**How does a 529 affect financial aid?** A 529 can affect financial aid, but the impact will vary depending on the account owner. The federal aid formula assesses parental assets at a maximum rate of 5.64%. That means that in general, for every $1,000 in a 529, the "expected family contribution" toward college costs could increase by only $56 at most. Importantly, 529 accounts owned by dependent students are counted as parental assets and assessed at the 5.64% rate. This is significant because other types of student assets can be assessed at the much higher rate of 20%. For grandparents and anyone else who contributes money toward the student's college expenses, nothing is counted as assets. But, once the student spends that money on qualified expenses, they'll have to report that money as income.

**Does a 529 have an account minimum or maximum?** 529s are designed to accommodate every budget, with a $0 minimum investment and a generous $500,000 per beneficiary limit.

**To learn more about CollegeBound 529 and access more resources, please visit Invesco.com/Collegebound529 or call 1 877 615 4116 for more information.**

Sources: College Savings Plan Network, CollegeBound 529, Savingforcollege.com.

NOT FDIC INSURED   MAY LOSE VALUE   NO BANK GUARANTEE

**Before you invest, consider whether your or the beneficiary's home state offers any state tax or other benefits such as financial aid, scholarship funds, and protection from creditors that are only available for investments in that state's qualified tuition program.**

**For more information about CollegeBound 529, contact your financial advisor, call 877 615 4116, or visit collegebound529.com to obtain a Program Description, which includes investment objectives, risks, charges, expenses, and other important information; read and consider it carefully before investing.**

An investment in the Portfolios is subject to risks including: Investment risk of the Portfolios which are described in the Program Description; the risk (a) of losing money over short or even long periods; (b) of changes to CollegeBound 529, including changes in fees; (c) of federal or state tax law changes; and (d) that contributions to CollegeBound 529 may adversely affect the eligibility of the Beneficiary of the Account Owner for financial aid or other benefits. For a detailed description of the risks associated with CollegeBound 529, and the risks associated with the Portfolios and the Underlying Funds, please refer to the Program Description.

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Depending on the laws of the home state of the customer or designated beneficiary, favorable state tax treatment or other benefits offered by such home state may be available only if the customer invests in the home state's 529 college savings plan. State-based benefits should be one of many appropriately weighted factors to be considered in making an investment decision; and the customer should consult with his or her financial, tax or other adviser about how such state-based benefits would apply to the customer's specific circumstances and may wish to contact his or her home state or any other 529 college savings plan to learn more about their features.