ESTATE PLANNING

BENEFITS OF A 529

The features many investors overlook

INVESTMENT PRODUCTS: NOT FDIC INSURED • NO BANK GUARANTEE • MAY LOSE VALUE

This material is to support interest in the Scholars Choice Program. For more information contact your Financial Professional.

FORGET THE MYTHS, KNOW THE FACTS

Learn how 529 plans can help you:
- reduce current and future tax liability
- pass wealth on to children, grandchildren and future generations
- fully control assets even though assets are outside your estate

Myth: 529 plans are inflexible.

While 529 plans are certainly one of the best ways for many families to save for future education costs, many think that the only benefit 529 plans offer is a tax-free way to save for college.

Fact: In 1996, when Congress drafted the legislation (which would eventually create the framework for 529 plans nationwide), they actually put additional provisions into the legislation to give account owners maximum flexibility with unique gifting, estate planning and control benefits.

Myth: The money in a 529 plan account must be used to pay for education expenses for the benefit of the designated beneficiary.

Many people think 529 plans are a "use it or lose it" proposition, i.e., that if the intended beneficiary doesn't go to college, or gets a scholarship, or if there's money left in the 529 plan account when the beneficiary graduates, the beneficiary has claim to the money in the account or the account owner somehow must forfeit the money.

Fact: The beneficiary never has any access or entitlement to the money in a 529 plan account — not when they turn 18 (or whatever the age of majority is in the state in which they live), not if they go to college, not if they don't go to college, not when they graduate, not even when the account owner passes away.

The account owner is the only person with control over the money in a 529 plan account.

Myth: A withdrawal from a 529 plan account must be used for education expenses or it will be subject to tax and penalty.

Another misconception is that when an account owner takes money out of their 529 plan account and uses it for something other than "qualified" education expenses, the entire withdrawal is subject to tax and penalty.

Fact: Only the earnings portion of a non-qualified withdrawal from a 529 plan account is subject to tax and penalty.

Example 1:
Tax treatment of non-qualified withdrawals

- withdrawal amount is $30,000
- from an account which grew to $150,000 on $100,000 in contributions
- because non-qualified withdrawals are "pro-rata," the earnings portion of the withdrawal would be one-third or $10,000
- two-thirds of the withdrawal is return of principal — free from any tax or penalty
- only one-third, or $10,000, of the withdrawal is subject to tax — and the 10% federal penalty

> Myth: 529 plans are inflexible, and must be used to pay for college expenses
>
> Fact: 529 plans were designed by Congress for maximum flexibility, with unique gifting, estate planning and control benefits

Don’t let misinformation shortchange your estate planning strategy

Myth: When making a non-qualified withdrawal from a 529 plan account, the account owner is taxed.

Fact: Non-qualified withdrawals from a 529 plan account are taxed at the ordinary income tax rate of the distributee — either the beneficiary or the owner.

So, if the beneficiary is in a lower tax bracket, you may choose to have the check made payable to them — instead of yourself, as account owner — thereby lowering the tax burden.

Example 2:
Tax treatment of non-qualified withdrawals

- withdrawal amount is $30,000
- from an account which grew to $150,000 on $100,000 in contributions
- the earnings portion of the withdrawal would be one-third, or $10,000
- account owner is in the highest tax bracket
- if the beneficiary’s income tax rate is 10%, then the federal tax would be $1,000, and the 10% federal penalty would be an additional $1,000, for a total of $2,000 (State income tax may apply)

Myth: A non-qualified withdrawal, such as one used for medical expenses, is always subject to tax and penalty.

Fact: A 529 plan account withdrawal used to pay medical expenses of a disabled beneficiary is exempt from the normal federal penalty.

Disability of the beneficiary is one of four exceptions to the 10% federal penalty. (The other three exceptions are death of the beneficiary, scholarship and military school attendance.)

So, while tax would apply to the earnings portion of such a withdrawal, the 10% federal penalty would not.

Example 3:
Tax treatment of non-qualified withdrawals

- beneficiary is changed from account owner’s child to owner’s mother, who is disabled
- $30,000 is withdrawn to pay for mother’s medical expenses
- from an account which grew to $150,000 on $100,000 in contributions
- the earnings portion of the withdrawal would be one-third or $10,000
  - ordinary income tax due at distributee’s rate on $10,000, but
  - *no* 10% federal penalty

Myth: A 529 plan account owner can gift only $15,000 per year — $30,000 if filing jointly.

Because 529 plan contributions are "Completed Gifts" — out of the account owner's estate — the Gift Tax rules apply. So, the most I can give is $15,000, right?

Fact: Wrong. By taking advantage of a special provision of Section 529 of the tax code, an individual can contribute up to $75,000 per beneficiary — and couples can contribute up to $150,000 per beneficiary — in a single year.

Gifts of $400,000 or more can be made to each beneficiary in a single year, using one's Lifetime Gift Tax Exclusion, or Lifetime Unified Credit, which currently stands at over $22 million.[1]

Myth: Using one's Lifetime Unified Credit and the 529 5-year forward-gifting provision are mutually exclusive.

Fact: Actually, taking advantage of the 529 5-year forward-gifting provision can keep your Unified Credit intact.[2]

Example 4: Gifting after a liquidity event

- Couple with 7 married children, 15 married grandchildren, and 6 great-grandchildren
- Sold their company for $25 million
- They contributed $150,000 to a 529 account for each child/spouse, grandchild/spouse, great-grandchild
- They remove over $5 million from their estate using the 5-year forward-gifting provision
- They keep their Unified Credit intact
- No gift tax consequence, so long as they do not make additional gifts to the same beneficiaries over the 5-year period

Myth: A 529 plan account can only be established by an individual.

Fact: A Trust — and other entities, such as for-profit corporations and non-profits — can be the owner of a 529 plan account.

Using this strategy, a Trust, for example, may be able to reduce the tax burden — from potentially the highest tax bracket to zero.

Myth: Using one's Lifetime Unified Credit and the 529 5-year forward-gifting provision are mutually exclusive.

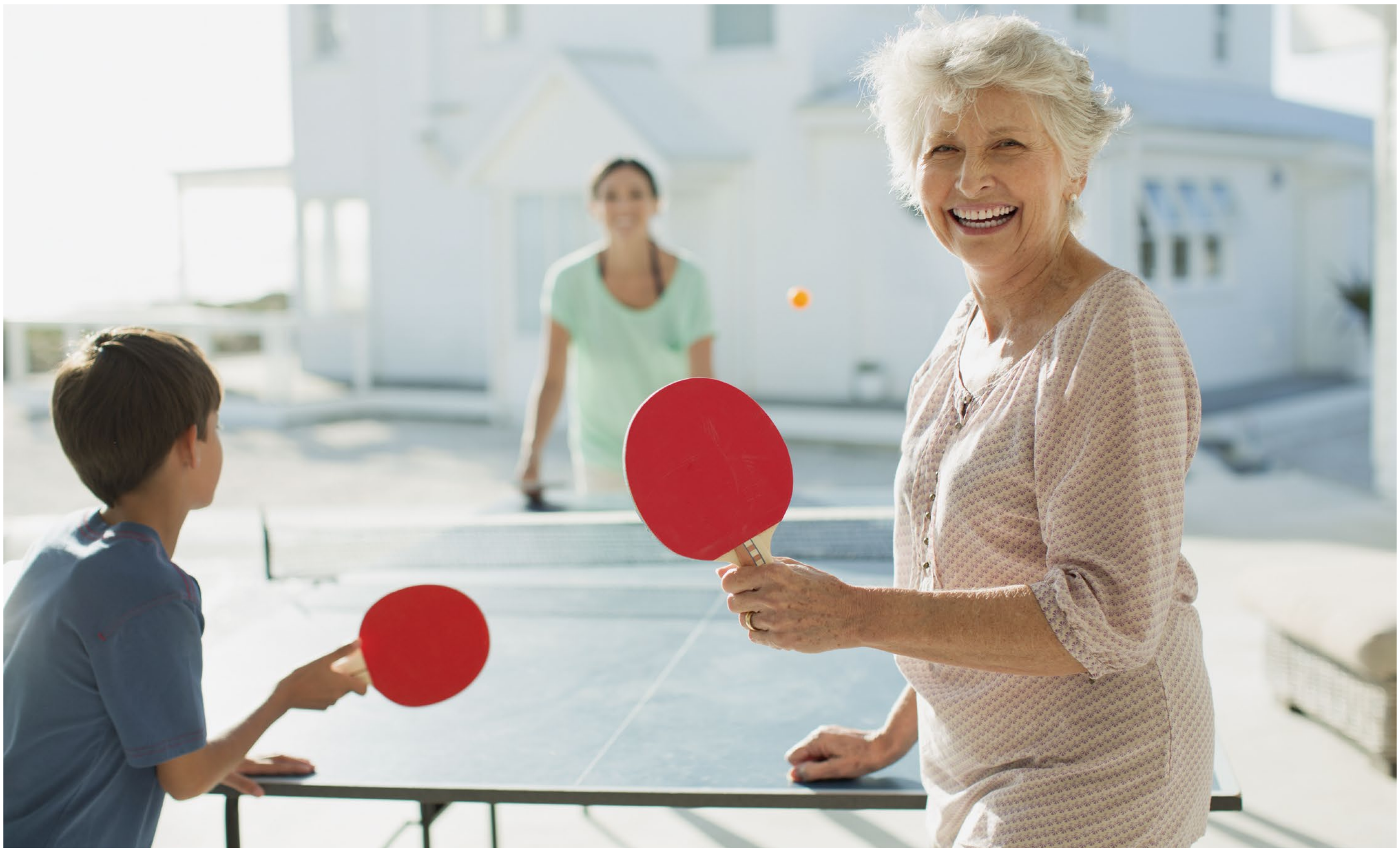
Fact: Investors can take advantage of the 529 5-year forward-gifting provision and keep their Unified Credit intact.

[1] The Maximum Contribution Limit for the Colorado-sponsored 529 plans. Contributions in excess of the annual Gift Tax Exclusion ($15,000 for individuals; $30,000 for joint filers) – or the Section 529 5-year "Forward-Gifting" provision limits ($75,000 for individuals; $150,000 for joint filers) – would be deducted from the Giftor's Lifetime Unified Credit. Original $5MM amount was indexed for inflation occurring after 2011; was $5.49MM in 2017. Effective date – the provision is effective for estates of decedents dying and gifts made after December 31, 2017 and before January 1, 2026.

[2] Note: Federal law does not specifically address the tax treatment of a transfer of ownership of a 529 account. You may want to consult a tax adviser to fully understand any potential tax consequences.

REASONS TO CONSIDER THE SCHOLARS CHOICE® 529 PLAN

From expertise to execution — take estate planning to the next level



Our plan utilizes actively managed funds exclusively.

Scholars Choice offers a wide variety of investment options, tapping into the proven expertise of the proprietary specialist investment managers — plus non-proprietary manager Thornburg Investment Management — all employing active management.[3]

Additionally, the plan's investment manager, QS Investors, performs ongoing asset allocation adjustments, fund selection and performance monitoring.[4]

Additionally, Scholars Choice has features that make taking advantage of the estate planning benefits of 529 plans easier:

- **No time restrictions**[5]
- **A high $400,000 contribution limit**
- **Ability to transfer account ownership**
- **Ability to have distributions made payable to either the account owner or the beneficiary** (allowing for any tax owed on the earnings of a non-qualified distribution to be paid at the lower rate).

[3] Thornburg Investment Management, Inc. is not affiliated with Franklin Resources, Inc.

[4] QS Investors is the Investment Manager and Legg Mason Investor Services, LLC is the primary distributor of interests in the Program; together they serve as Manager of the Program.

[5] One state, Virginia, has a time limit; see the Plan Disclosure Statement for details.

About CollegeInvest collegeinvest.org

CollegeInvest is a not-for-profit division of the Colorado Department of Higher Education, and a trusted resource providing 529 college savings plans, financial education and scholarships for higher education.

Where can I find more information?

Visit www.scholars-choice.com.

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