Saving for College, the State’s Edvest plan, and putting the pieces together

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Jim DiUlio, Director – Wisconsin 529 College Savings Program
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What we’re covering today…

- Basics of 529 college savings plans
- Wisconsin’s plans
  - Tax benefits for residents
  - 2012 program upgrade
- 529s and FAFSA, the financial aid process
- Big picture, resources & your questions
529 plans are only 16-years-old

Take a walk down memory lane...

529 plans were first enabled by Congress in 1996

Some of the first plans by starting date are as follows:

1989-OH Ohio College Advantage Savings Plan – Putnam
1990-KY Kentucky Education Savings Plan Trust- TIAA CREF
1996-UT Utah Education Savings Plan Trust (UESP) –State
1997-IN-CollegeChoice 529 Investment Plan-Bank One
   CT Connecticut Higher Education Trust (CHET)-TIAA CREF
   WI EdVest College Savings Program- Strong Capital
   LA Student Tuition Assistance and Revenue Trust Program-

62% (41 Plans) began operations in 2000 or later
529 plan basics - nationwide

- Look/work like 401-k, 403-b, 457 retirement plans, variety of investments you select
  - 90-plus savings plans nationwide
  - Direct- and advisor-sold
  - A dozen more prepaid tuition plans

- Active and index standalone funds, equity and bond multifunds, stable value, CDs, money markets, age-based progressions

- After-tax money, but no federal or state taxes on gains when used for qualified higher education expenses (states can add tax benefits)
529 plan basics - nationwide

- Qualified expenses include tuition, fees, labs, room and board, books, other college requirements (no cars, no loan repayments)

- Assets may be used almost everywhere...post-high school institutions, technical colleges, universities, including graduate and professional programs, and many world-wide (schools with ED number)
529 plan basics - nationwide

- 2 names: Account owner & intended beneficiary
  - Beneficiary can be anyone, including self

- Add money at will, no obligations
  - Lump sums, birthdays, automatic draws
  - Other people can add to account
  - Accept rollovers from other states’ 529s, UTMA/UGMA
  - Owner decides investments, account changes

- Owner always keeps control
  - Directs when and where for withdrawals
  - Can change beneficiary anytime
  - Can name a successor owner
Family beneficiary change keeps tax benefit
Withdrawing 529 plan assets

- Owner initiates request

- Direct payment to the school
  - Checks, electronic transmission
  - Cash on account
  - Tax reasons for doing so

- Payment to self
  - Prior to an anticipated expense
  - Reimburse after the fact
Withdrawing 529 plan assets

- Tax-free up to the expenses incurred
  - In the same calendar (tax) year
  - For the same named beneficiary
  - Called a qualified withdrawal

- Excess withdrawals subject to tax & penalty
  - Amounts more than expense receipts; gain portion is treated as ordinary taxable income
  - Called a nonqualified withdrawal
  - Regular income taxes on gain portion, plus a 10% penalty, e.g. instead of $300 taxes due, it’s $330

- 529 plan issues Form 1099-Q in January
General 529 tax information

- No income restrictions on owners/contributors

- Growth is always federal tax-free, no matter where the account is based or funds used

- Benefits can favor residents of a state:
  - Most also allow state tax-free growth
  - Some states do matching money
  - A few plans are for residents only, some waive or reduce fees

- High lifetime limit for beneficiaries, generally five years cost of attendance (COA) ($330,000 Wisconsin)
For gifting purposes, a 529 account beneficiary can accept a gift of up to $70,000/$140,000 at one time and prorated over five years, removing the money from the estate. Do not do this on your own, consult with the tax professionals!

Can contribute to both 529 and Coverdell (ESA) accounts, see the worksheets for other federal programs

Refer to IRS Publication 970 ‘Tax Benefits for Education’
- Chapter on Qualified Tuition Programs covers 529
- Rules do change annually or more often, check with the pros
Let’s take a break...
Wisconsin 529 program upgrade in 2012

- Wells Fargo Funds decided to leave 529 market

- Edvest, direct-sold - TIAA-CREF Tuition Financing Inc.
  - From 15 to 22 portfolio choices
  - Technology upgrades, more outreach, social media
  - Lower investment fees, lower opening minimum

- Tomorrow’s Scholar, financial advisors – ING Investments
  - From 7 to 31 portfolio choices
  - Lower fees, more services to financial advisors
Wisconsin state-specific points

- Can save in any state’s 529 plan, but there are some benefits only available for residents

- Both Wisconsin plans:
  - No account fees for residents
  - $330,000 lifetime max per beneficiary
  - Tax benefit on contributions
  - State-taxable income is reduced dollar for dollar (for contributions up to $3,000 each year), if the beneficiary is your child, grandchild, great-grandchild, niece, nephew, or self
  - Do not need a separate account, can add to existing one
Reduce Wisconsin taxable income, each tax year

Grandparents, filing single or joint tax return, up to $3,000 for each child

Parents, filing single or joint tax return, up to $3,000 for each child

Special rules for separations, divorced parents

Beneficiary

Brother/sister

Brother/Sister

Aunt/Uncle, filing single or joint tax return, up to $3,000 for each child

Brother/Sister
FAFSA and 529 accounts

- Free Application for Federal Student Aid
  - Free, as in don’t pay anyone
  - Pick more than one school

- 529 are considered a parent asset, 5.6%
  - Also if owned by a dependent student
  - Or held by a custodian for the student
  - Same consideration as regular savings
  - “a 529 does not reduce aid qualification”
FAFSA and 529 accounts

- Grandparent-owned accounts invisible
  - This year’s withdrawals counted as student’s asset/income on FAFSA application next year
  - Other non-parent accounts, same treatment

- Withdrawals from multiple 529 accounts
  - Strategic planning with tax professionals
  - Remember, you control beneficiary changes
Adults should consider 529 accounts for grad school, CE credits, new jobs
Parents use college-specific savings vehicles less frequently than other instruments.

Percent Savers Using Vehicle Type

- Some other way: 18%
- Trust: 13%
- UGMA/UTMA: 13%
- Prepaid state plan: 13%
- Coverdell/Education IRA: 15%
- Retirement account: 17%
- Rewards program: 21%
- Investments: 23%
- Checking account: 27%
- 529 plan: 27%
- General savings/CDs: 42%
Projected Change in the Number of High-School Graduates

Map shows the estimated change in high-school graduates from 2010-11 to 2020-21.

% Change in HS Grads

SOURCE: WESTERN INTERSTATE COMMISSION FOR HIGHER EDUCATION
Edvest is focused on our state

- Simple task: Help families get their kids to college
- Outreach and community visits
- Targeted marketing and advertising
- Engage partners, including higher ed

Let us know if you see an opportunity
Edvest is into media

Follow on Facebook/Edvest
Tweet us @edvest529

- Statewide commercial radio and WPR
- Traditional media, too
Seasonal and special promotions

- National College Savings month in September
- Back-to-school, year-end tax planning
Unique situations with 529 applications

- 529 for yourself: CE, grad credits
  - Librarians, school personnel, emergency workers
  - Career upgrades, career changes, classes for enrichment

- Parent 529s, grandparent 529s, and FAFSA

- Large $$$ gifting provisions

- Scholarships, military academies

- Family foundations considering scholarships
529 resources, tools

- [www.collegesavings.org](http://www.collegesavings.org), multistate 529 site of CSPN, College Savings Plan Network
- [www.savingforcollege.com](http://www.savingforcollege.com), commercial site listing all 529 plan details and conversation with Joe Hurley, CPA
- [Morningstar.com](http://Morningstar.com) (basic and premium)
  - All three have links to state/plan sites, additional information

- Locate 3,800 colleges and current costs with the Archimedes calculators on Edvest and Tomorrow’s Scholar sites
- Be leery of blogs, tweets, websites claiming to offer ‘college saving’ advice. Few writers in the national financial media understand the basic rules of 529.
- More on the printed handout
Review of 529 plan basics

- Federal and state tax-free growth, state benefits
- No income limits, all US citizens eligible
- Account owner/parent maintains control
- Dollars are portable, family-friendly rules
- Nearly every higher education school eligible
- Range of investment choices
- Set up accounts directly or through an advisor
- 529 can accept rollovers, gifts
THANKS FOR THE INVITATION, CONTINUED
GOOD LUCK IN YOUR RETIREMENT

Jim DiUlio
Director, Wisconsin 529 College Savings Program
james.diulio@wisconsin.gov  Office 608-264-7886