Guide to 529 Accounts

The Flexible Way to Invest for College

INVESTMENT MANAGEMENT

The Most Important Kind of

Long-Term Investment

What is the Return On Investment for a College Education?

What is the return on investment for a college education? According to the College Board, individuals with higher levels of education earn more, pay more taxes, and are more likely than others to be employed.* That's a good investment by anyone's measure, but the costs can be high. The cost of tuition alone for the 2021-2022 school year is $38,070 per year for private colleges on average, $27,560 for out-of-state public and $10,740 for in-state public** — and costs continue to rise well beyond the rate of inflation. The good news is that 529 savings accounts are specially designed to help families make the investment in this most important of long-term goals.

* Source: College Board Education Pays 2019, *The Benefits of Higher Education for Individuals and Society.*

** College Board, Trends in College Pricing and Student Aid 2021.

What is a 529 Account?

There are many ways for families to save for college — many with federal tax advantages. But 529 savings accounts are unique because they are set up by individual states with additional state tax benefits. As long as the investment is used for qualified expenses at an accredited school, the money that is earned is completely tax-free. 529s also have an extraordinary degree of flexibility in terms of who can contribute and how much they can contribute.

529s vs. Other Education Savings Vehicles

	529	Coverdell ESA	UGMA/ UTMA	Taxable Account
No income restrictions	✓		✓	✓
High contributions permitted	✓		✓	✓
Qualified earnings and withdrawals are free from federal tax	✓	✓		
Potential state tax deductions/ credits	✓			
Owner always has control	✓			✓
Beneficiary (student) can be changed at any time	✓			NA

A Special Plan for College Planning

If you were to design the ideal college savings plan for your children, it would probably have some combination of flexible contribution rules, tax advantages for you, gift and estate tax benefits for grandparents and other donors, the ability to control the assets and even transfer them to other children, and the right to use it for a wide variety of education expenses at most post-secondary schools.

All of These Benefits Exist in a 529 Plan.

- *Flexible Contribution Rules* — 529 contributions can be made for anyone, by anyone, with high maximums, low minimums and no income restrictions
- *Tax Advantages* — 529 plan investments grow tax-deferred, and qualified distributions to pay for the beneficiary's college costs, college loans, apprenticeships or K-12 tuition are free of federal and, in almost all cases, state taxes.[1, 2, 3] Your own state may offer additional tax breaks such as an upfront deduction for your contributions
- *Gift Tax Benefits* — 529 accounts allow grandparents, friends and family to contribute the highest amount that can be contributed before incurring gift taxes
- *Estate Planning* — 529 accounts are one of the only assets that account owners can remove from their taxable estate while maintaining control over the assets
- *Control over Assets* — Account owner(s) always controls a 529 account, and can change the beneficiary and even the owner at any time
- 529 assets can be used for most education expenses including tuition, room and board, books, computers and supplies at most two- and four-year colleges, technical, vocational and graduate schools as well as tuition for primary or secondary public, private and religious schools.[4]

[1] Only one state, Alabama, does not offer state tax-free withdrawals for qualified expenses for any plan but its own. It is important to review local state tax laws before withdrawing from a 529 to pay for K-12 tuition, rules surrounding these distributions vary between states. Some states do not consider these distributions to be qualified and/or may apply additional criteria in order for the distributions to be considered qualified.

[2] Nonqualified withdrawals are subject to a 10% penalty on the earnings component of such withdrawal, unless such penalty is waived, as well as taxes at ordinary rates of the recipient on such earnings. States may also charge penalties and/or recoup tax credits/deductions previously claimed.

[3] Only the federal tax treatment of expenses for apprenticeships and the repayment of student loans was changed by the SECURE Act. State taxpayers should be aware that it has not yet been determined if states conform to the federal legislation. As a result, it is important for state taxpayers to consult their tax advisors before (1) making a withdrawal for apprenticeship and student loan payments or (2) making a contribution to a 529 plan which they intend to ultimately withdraw for apprenticeship or student loan payments. State tax treatment varies by state. Taxpayers who reside or have income in other states should also consult with a qualified tax advisor before taking any such actions.

[4] Distributions for tuition in connection with enrollment or attendance at an primary or secondary public, private, or religious school are federally income-tax free up to a maximum of $10,000 per taxable year per beneficiary from all 529 plans. The tax treatment of withdrawals used to pay for primary and secondary school tuition differs between states and as such may differ from the federal tax treatment as well.

Did You Know?

Financial aid formulas require a much higher percentage of a child's assets to be applied toward college costs than the parents. 529 accounts, unlike many college savings arrangements, are typically considered a parental asset.

Tax Advantages

to Boost Your College Savings

Saving for college is significantly easier when the earnings used to help pay for education costs grow free from federal — and in most cases state — taxes. This can really make a difference in the amount of money you can accumulate in the small window of time most parents have to prepare for college costs.

Federal Tax Advantages

Although contributions are not deductible on your federal tax return, your account grows federally tax-free. You don't pay any tax on withdrawals or earnings as long as the accounts are used for qualified education expenses.

State Tax Advantages

All but one state (Alabama) exempts qualified 529 withdrawals from state tax. In addition, many states offer deductions or credits for all or part of the contribution.

Estate and Gift Tax Benefits

529s are a great way for grandparents and other family members to create an education legacy for a child while sheltering assets from estate and gift taxes. Anyone can make annual tax-free contributions of up to $16,000 ($32,000 for married couples) per child without incurring gift tax. As an alternative, one can give up to $80,000 ($160,000 for couples) per child once every five years — all of it free from federal estate and gift taxes.*

* In the event the contributor does not survive the five-year period, a pro-rated amount will revert back to the contributor's taxable estate.

The Power of Tax-Exempt Growth

The cumulative tax savings offered by 529s can really add up over time. The chart below shows how a hypothetical investment of $10,000 that earned 6% annually over 18 years would have earned $4,450 more in a tax-advantaged 529 account than it would in a regular taxable account.

Taxable (24% Tax Bracket)	
Initial Investment	$10,000
Earnings	$14,093
Future Value (after 18 years)	**$24,093**

Tax-Exempt	
Initial Investment	$10,000
Earnings	$18,543
Future Value (after 18 years)	**$28,543**

The tax benefits would multiply if you had invested an additional $150 each month for those 18 years. At a 24% tax bracket, the investment would grow to $85,687 in a 529 account compared with $75,298 in a taxable account. And that's before factoring any state or local tax breaks.

For illustrative purposes only. Assumed rate of return is not guaranteed. Hypothetical returns do not represent any particular products and do not reflect the impact of fees and expenses that may apply to actual investments. Assumes no withdrawals. Investing involves risks and you could incur a profit or a loss.

The projected values assume an initial lump sum of $10,000 is invested and $150 is invested each month thereafter for 18 years at a hypothetical compound annual growth rate of 6%, accrued monthly, and a 24% federal tax bracket.

Choosing the
Right 529 Plan for Your Needs

There are many different 529 plans to choose from, so it's easy to select the plan that's right for your family's budget and needs. You've taken a good first step by working with a financial professional. Financial professionals can reduce the complexity of financial markets to focus on your goals and how best to reach them.

What to Look For:

> **Consider your own state first**
You're not required to invest in your own state's plan, but it's usually the best place to start looking, since most states offer at least some state tax benefits to their own 529 investors. However, be sure these advantages are not outweighed by lower investment performance, higher fees and account restrictions.

> **Look for flexibility in investments**
Families have different needs when it comes to investing, so it's important that a range of options are available. Some of the more common include age-based (where allocations change as the beneficiary approaches college), risk-based, a diversified mix of funds, and selections from more than one investment manager.

> **Look for convenient services**
Busy families don't want to have to turn a 529 plan into homework. Make sure your plan offers time-saving features like web access, automatic investment programs and college planning tools.

> **Look at cost**
Like all investment programs, 529 plans have costs, which can affect long-term investment results. While cost isn't the only consideration in deciding on a 529 plan, it may be helpful to look at costs when comparing similar plans.

> **Look for joint ownership**
Many couples make joint financial decisions, and joint ownership allows either party to make investment, funding and withdrawal decisions for the student.

> **Consider plans that allow rollovers**
Many plans allow you to roll existing assets currently in a Trust, a UGMA/UTMA, U.S. Savings Bonds, or a Coverdell Education IRA into a 529 account to take advantage of its education saving benefits.

Did You Know?

A total $215,064 loan* at 8% would cost $195,891 more over ten years than if you made monthly 529 payments instead of taking a loan.

* Amount is calculated to cover $25,000 annual cost of college over four years. The example assumes monthly loan payments of $2,609 to pay down the $313,118 loan, which includes interest paid of $98,054, vs. monthly 529 account contributions of $465 totalling $117,228 and earning an assumed 6% rate of return.

It Takes a Family to Pay for College

- Parents can set aside monthly or annual contributions when the child is born
- Grandparents, aunts and uncles can give gifts at birthdays, holidays and graduations
- Extended family can help with the lifetime gift of education
- Friends can contribute the same amount as family
- Beneficiaries can contribute from summer jobs or gifts

Putting It All Together

Establishing a 529 college savings account is a great way to meet one of life's biggest investment objectives. With a little advance planning — and the assistance of your financial professional — you can quickly and easily put your family on the right track to making college possible.

Working with Your Financial Professional Step-by-Step

1 Determine Funding Needs

Look at the type of colleges you think would be appropriate and look at their current costs — tuition, room and board, books, fees. Factor in approximately 1.6% a year for college cost beyond inflation (average annual percentage increase in inflation-adjusted published prices for the past 10 years).*

2 Determine Contribution Resources

Look at how much you can invest initially, including contributions from grandparents, extended family and friends. Then calculate how much you can set aside monthly or quarterly. Chances are your financial professional can help you select investments that work within these financial parameters.

3 Select a 529 Plan and Open an Account

Choosing a 529 plan is the hard part, since there are so many from which to choose. Your financial professional can be an invaluable resource in identifying the plan that's closest to your objectives.

* College Board, Trends in College Pricing and Student Aid 2021.

An investor's or a designated beneficiary's home state may offer 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. Please consider this before investing.

Earnings component of non-qualified withdrawals may be subject to federal and state taxes and the additional federal 10% tax.

Investments in 529 Plans are subject to certain charges, which will reduce the value of your account as they are incurred. Please see the Program Description or other disclosure document for details of charges or fees that apply to your 529 Plan.

Investments in 529 plans are not guaranteed or insured and are subject to investment risks, including the loss of the principal amount invested.

The tax information herein is not intended to be used, and cannot be used by any taxpayer, for the purpose of avoiding tax penalties. Taxpayers should seek advice based on their own particular circumstances from an independent tax advisor.

Investors should carefully consider the investment objectives, risks and charges and expenses of 529 plans and their underlying funds before investing. This and other information can be found in the Program Description or other disclosure documents of the 529 Plan. You may obtain this information from the programs' administrators or your financial professional. Please read this information carefully before investing or sending money.

BSIG-529 051822 • IM2209101 • 168209 • WLTP0218220

(800) 992-0180 Individual Investors | (800) 334-3444 Investment Professionals

PLAN | INVEST | PROTECT

voyainvestments.com