

529 PLANS



# Investor's Guide to 529 College Savings Plans



Produced by the  
Municipal Securities Rulemaking Board

## About the MSRB

The Municipal Securities Rulemaking Board (MSRB), created by Congress in 1975, is a self-regulatory organization charged with protecting investors, municipal entities and the public interest by promoting a fair and efficient municipal securities market. The MSRB establishes rules for municipal securities firms, banks and municipal advisors that engage in municipal securities and advisory activities.

Interests in 529 college savings plans are considered municipal securities under the federal securities laws, and are considered municipal fund securities under MSRB rules. MSRB rules apply to brokers, dealers and municipal securities dealers (collectively, "dealers") that act in the capacity of underwriters of 529 college savings plans, dealers that sell interests in 529 college savings plans, and municipal advisors to those plans.

The MSRB has adopted standards that govern municipal securities dealers and municipal advisor activities in connection with the sale of 529 college savings plans, including requirements related to fair dealing, disclosure, suitability and professional qualification. The MSRB operates the [Electronic Municipal Market Access \(EMMA®\) website](#), the official repository for information on virtually all municipal securities that provides investors and the public with free access to official disclosures, including plan disclosure documents for 529 college savings plans.



# Investor's Guide to 529 College Savings Plans



A 529 college savings plan is a tax advantaged qualified tuition program designed to help investors save for future higher education expenses. The purpose of this Investor's Guide is to help potential 529 plan account owners and contributors understand how the plans work to help support informed investment decisions. This Investor's Guide does not offer legal, financial or tax advice, nor does it recommend or describe a particular 529 college savings plan. Consult your legal, financial and/or tax advisor for such assistance.

This Investor's Guide has three sections. Section One provides general information about 529 college savings plans. Section Two provides some specific considerations that grandparents should think about before investing. Section Three discusses how to find more information about 529 college savings plans and what to do if you have a complaint.

The disclosure booklet for a 529 plan provides prospective investors with important information about the plan, which may have characteristics that are not described in this Investor's Guide. Carefully review this plan-specific information to ensure you understand the plan, including its costs, benefits and risks, before you invest.

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# 1

## Section One: 529 Plan Basics

### Background Information

#### WHAT IS A 529 PLAN?

A 529 plan is a tax-advantaged qualified tuition program designed to encourage families to save for a child's future higher education expenses. A state, state agency or an educational institution may establish a 529 plan under Section 529 of the Internal Revenue Code. Earnings in a 529 plan account are not subject to federal income tax, and generally are not subject to state income tax when used for the qualified higher education expenses of the designated beneficiary (the person who benefits from the amounts contributed to the 529 college savings plan) at an eligible institution (*i.e.*, any college, university, vocational school or other postsecondary educational institution eligible to participate in a student aid program administered by the U.S. Department of Education). Qualified higher education expenses include tuition, fees, books, certain computer-related expenses and certain room and board.

A state may offer certain tax or other benefits to residents who contribute to a 529 plan. You should consult your tax advisor for more information.

#### WHAT ARE THE TYPES OF 529 PLANS?

There are two types of 529 plans. One type of 529 plan is a 529 college savings plan. Under a 529 college savings plan, you (the "account owner") purchase units in an account for your designated beneficiary, generally your child, grandchild or a member of your family, to pay for his or her qualified higher education expenses. This type of 529 plan may be sold one of two ways. It may be "direct sold," that is, sold directly through the 529 college savings plan's website or through the mail, or the 529 college savings plan may be "advisor sold," that is, sold through a broker-dealer that has entered into a selling agreement with that 529 college savings plan's primary distributor.



The other type of 529 plan is a prepaid tuition plan. Under a prepaid tuition plan, you purchase tuition credits or certificates on behalf of your designated beneficiary that serve as waiver or payment of his or her qualified higher education expenses. You must contact your state directly (typically through its website or by mail) to purchase

a prepaid tuition plan. Because the MSRB does not regulate the offer or sale of prepaid tuition plans, this Investor's Guide does not discuss prepaid tuition plans. Section Three of the guide provides other sources of information about 529 plans that you may wish to consult.

## Expenses

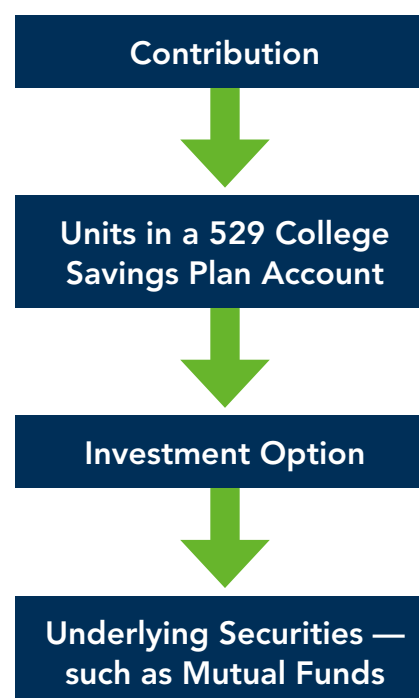
It is important that you understand the fees and charges associated with 529 college savings plans. Those fees and charges could be high, and they will lower your investment return. Fees and charges are disclosed in each program disclosure booklet for a 529 college savings plan.

### WHAT FEES AND CHARGES ARE ASSOCIATED WITH A 529 COLLEGE SAVINGS PLAN?

There are certain fees and charges assessed under a 529 college savings plan that you may pay directly and indirectly. The fees and charges that you may pay directly are charged at the account or investment option level. They may include the fees collected by the state sponsor of the 529 college savings plan, such as the state fee, and fees collected by the third-party program manager for administering the 529 college savings plan, such as the program manager fee. There also may be certain fees and charges associated with certain transactions you may make, such as a contingent deferred sales charge that may be assessed if you make a withdrawal from certain investment options.

In addition, there are fees and charges assessed under a 529 college savings plan that you may pay indirectly. Those fees and charges are charged at the investment option level but may be based on the fees and charges associated with the underlying securities. They may include the annual fund operating expenses and the distribution fees or sales loads associated with the mutual fund included in your selected investment option.

#### Contribution flow:





## WILL THE AMOUNT OF THOSE FEES AND CHARGES VARY?

Yes, the fees and charges assessed under a 529 college savings plan may vary from year to year, and will vary based, in part, on the investment option you select.

Some 529 college savings plans may offer investment options that have different unit classes. With those investment options, each unit class will invest in different share classes of the same mutual fund, which will have its own fees and charges, and you may have a limited ability to change a unit class. You should carefully review the fees and charges assessed under each unit class.



Dan and Mary Smith are beginning to save for their infant son Steve's future college expenses. They have limited ability to save, but want to save as much as possible for their son. Mary is interested in 529 college savings plans, but is concerned about how expensive a 529 college saving plan might be. Mary knows that fees and charges affect investment performance, and she wants to have as much of their funds as they can invested in the plan. What should Mary be considering?

With a 529 college saving plan, Mary will be investing in an account, and that account will, in turn, invest in securities such as mutual funds. Some of the fees at the investment option level, such as distribution charges, generally may only apply if the 529 college savings plan is advisor-sold. If cost is a major concern for Mary, then she may want to consider a 529 college savings plan with the lowest account-level fees and with the lowest investment option fees. Mary may want to consider a direct-sold 529 college savings plan because there generally are not distribution fees associated with those plans.

As Mary knows, higher fees and charges can make a difference over time. Assume Mary invested \$10,000 in a 529 college savings plan with an annual return of 7 percent before expenses. With a 529 college savings plan that had annual expenses of 3 percent, after 5 years, the account value in Mary's 529 college savings plan account would be \$12,044. If the 529 college savings plan instead had lower annual expenses of 2 percent, the account value in her 529 college savings plan account would be \$12,678 — \$634 more in savings.



## Benefits and Risks

Before you invest, it is important to understand the potential benefits and risks associated with an investment in a 529 college savings plan. This guide describes some of those potential benefits and risks below.

### WHAT ARE THE POTENTIAL BENEFITS OF INVESTING IN A 529 COLLEGE SAVINGS PLAN?

- ➔ **Tax-deferred growth** — Your earnings, if any, in a 529 college savings plan account will grow free of federal income tax and generally will not be subject to state income tax. In addition, any withdrawal you make for the qualified higher education expenses of the designated beneficiary of your 529 college savings plan account will be free of federal income tax.
- ➔ **Diversity of investment options** — 529 college savings plans generally offer many types of investment options in which you may invest. Those options vary, in part, by risk tolerance.
- ➔ **High maximum contribution level** — Each state that offers a 529 college savings plan will limit the maximum account balance for all accounts in the 529 college savings plan for the same designated beneficiary. However, even though that maximum account balance varies from state to state, that maximum account balance is generally a high amount.

### WHAT ARE THE POTENTIAL RISKS ASSOCIATED WITH INVESTING IN A 529 COLLEGE SAVINGS PLAN?

- ➔ **Loss of principal** — The value of your 529 college savings plan account may increase or decrease over time based, in part, on the performance of the investment options you select. There is a risk that you may lose all or part of your 529 college savings plan account value. Your 529 college savings plan account value could be less than the total amount contributed to it.
- ➔ **Adverse impact on financial aid** — The eligibility of the account's designated beneficiary for financial aid will depend upon the circumstances of the designated beneficiary's family at the time the designated beneficiary enrolls in school as well as the policies of the governmental agencies, school or private organizations to which the designated beneficiary or his or her family applies for financial assistance.
- ➔ **No guarantee of attendance** — There is no guarantee that by investing in a 529 college savings plan, the designated beneficiary of your 529 college savings plan account will be accepted for admission to an eligible institution.
- ➔ **529 college savings plan changes** — The entity that oversees the 529 college savings plan may make changes to the plan. Those changes may include terminating the program manager, changing or closing investment options, and terminating the 529 college savings plan.



- ➔ **Fee changes** — The fees and expenses assessed under the 529 college savings plan may change, and new fees and expenses may be assessed in the future.
- ➔ **Medicaid eligibility** — Your eligibility for Medicaid assistance may be impacted by your ownership of a 529 college savings plan account. It is unclear whether a 529 college savings plan account will be viewed as a “countable resource” in determining an individual’s financial eligibility for Medicaid. You should consult a qualified advisor concerning your particular situation.
- ➔ **Change in law** — It is possible that Congress, the Department of Treasury, the Internal Revenue Service, the state that issued the 529 college savings plan or another taxing authority or court may take action that could adversely affect the 529 college savings plan in the future.
- ➔ **No guarantee** — There is no guarantee of the rate of return on a 529 college savings plan investment or, more generally, that there will be any interest credited to a 529 college savings plan account.



Mary knows that an investment may go up or down in value. She is concerned that the money she and Dan are saving for Steve be as safe as possible, but she also wants the tax-deferred growth potential that may be possible with an investment in a 529 college savings plan. What are some factors that Mary may want to consider?

Mary’s investment in a 529 college savings plan is not guaranteed. She could lose some or all of the funds that she contributed to the 529 college savings plan. However, Mary could manage that risk by investing in the more conservative investment options that may be offered in the 529 college savings plan. For example, some 529 college savings plans may include investment options that offer, subject to certain conditions, a guaranteed rate of return. The underlying securities in conservative investment options may be less volatile than the securities that make up more aggressive investment options. The program disclosure booklet for the 529 college savings plan discusses the investment risks associated with the investment options offered in that plan.





## Investment Options

### WHAT ARE THE TYPES OF INVESTMENT OPTIONS THAT ARE OFFERED IN A 529 COLLEGE SAVINGS PLAN?

There generally are two types of investment options that are offered in a 529 college savings plan — target date/age-based options and risk-based options.

➔ **Target date/age-based** — This type of investment option seeks to match your investment objective and the level of risk to your investment time horizon by considering your designated beneficiary's age and the number of years until your designated beneficiary turns 18. This type of investment option offers various "age bands," and generally, each age band will invest in a variety of mutual funds.

➔ **Risk-based** — This type of investment option is based on your investment risk profile: aggressive, moderate or conservative. Risk-based investment options may include an equity index fund, multiple mutual funds, a money market fund or a funding agreement offered by an insurance company under which the insurance company, subject to certain conditions, may provide a guaranteed minimum rate of return.

The program disclosure booklet may describe an investment option as a "standalone option," meaning the investment option invests in a portfolio of a single mutual fund, or as "static," meaning the investment option invests in a portfolio of a mutual fund that invests in other mutual funds (*i.e.*, a fund-of-funds).



Mary has been making contributions to her 529 college savings plan for Steve, her son, for a number of years. Steve is now in seventh grade, and Mary would like for the account to grow as much as possible to ensure that the account value will be large enough to cover many, if not all, of Steve's college expenses. Mary currently has elected the more conservative investment options offered in the 529 college savings plan. What might she consider doing?

Mary is allowed to make two transfers each year among the investment options offered in the 529 college savings plan. Mary could transfer some or all of her account value to an investment option that offers the potential for a greater rate of return. However, that investment option also may have greater investment risk.

In addition, Mary can change, at any time, the investment options in which she would like her future contributions to be invested. Mary could elect investment options that may offer a greater rate of return. The program disclosure booklet for the 529 college savings plan provides more information about investment allocations and transfers among investment options.



## Other Information

### WHO MAY OPEN A 529 COLLEGE SAVINGS PLAN?

To open a 529 college savings plan account, you must be a U.S. citizen or a legal resident, and you typically must be 18 years of age, unless a parent or guardian provides consent. A trust, estate, corporation, partnership, local government and not-for-profit organization also may open a 529 college savings plan account.

All account owners must have a social security or a taxpayer identification number. Further, the 529 college savings plan may require additional documentation to open the 529 college savings plan account. That documentation may vary by the type of account owner.

### WHO MAY CONTRIBUTE TO A 529 COLLEGE SAVINGS PLAN?

Anyone may make a contribution to a 529 college savings plan account. However, a contribution to a 529 college savings plan account may have gift or other tax consequences for the person making the contribution or the account owner.

If you are **not** the account owner and you are making a contribution, please note the following:

- ➔ You will forfeit any rights to the contribution once you make it — this means that you will not be able to direct how the contribution is invested, make a withdrawal from the account related to the contribution or have any rights if the account owner of the 529 college savings plan account were to name a different designated beneficiary at some future date.
- ➔ You will not receive a confirmation or a quarterly account statement from the 529 college savings plan about the account.



Mary's sister, Lisa, made a contribution to the 529 college savings plan account for Steve that Mary established. Lisa is now moving to another state and needs to use the funds she contributed to pay for her moving expenses. Can Lisa withdraw those funds from Mary's 529 college savings plan account?

No, only Mary may take a withdrawal from her 529 college savings plan account. Lisa cannot access those funds once she has made the contribution.



## ARE THERE LIMITS TO THE NUMBER OF ACCOUNTS OR THE AMOUNT OF CONTRIBUTIONS FOR A SINGLE DESIGNATED BENEFICIARY?

There may be multiple 529 college savings plan accounts with the same designated beneficiary. However, there is a maximum balance for all accounts in a 529 college savings plan offered by the same state issuer for the same designated beneficiary. The program disclosure booklet for the 529 college savings plan will discuss that maximum balance. The 529 college savings plan may return a contribution if that contribution would cause the maximum balance for all accounts for the designated beneficiary to be exceeded.

## WHO MAY BE THE DESIGNATED BENEFICIARY TO A 529 COLLEGE SAVINGS PLAN ACCOUNT?

You generally can name anyone with a valid social security number or taxpayer identification number, including yourself, to be a designated beneficiary to a 529 college savings plan account. You do not have to be related to the designated beneficiary.

## MAY I TRANSFER AMONG INVESTMENT OPTIONS?

You may change your investment options for future contributions to your 529 college savings plan account at any time. However, you may make only two transfers each calendar year of your current 529 college savings plan account value among the investment options offered.



Steve's mother, Mary, purchased the StarStudent 529 college savings plan offered by her state. Steve's grandmother also purchased the StarStudent 529 college savings plan offered by the same state. Steve's mother and grandmother named Steve as the designated beneficiary of each 529 college savings plan account. How much may be contributed to each account?

Steve's mother and grandmother, together, may contribute up to the maximum allowed by their state program for a single designated beneficiary. Their state program allows \$350,000 to be contributed. This means that Steve's mother's 529 college savings plan account balance, together with Steve's grandmother's 529 college savings plan account balance, may not exceed \$350,000, the balance limit. In general, the program manager may return to the person making the contribution any amount that would cause the account value for the beneficiary to exceed the maximum balance limit.



## HOW DO WITHDRAWALS WORK?

A withdrawal generally may be made at any time. However, only the account owner may make a withdrawal from a 529 college savings plan account. The 529 college savings plan program disclosure booklet describes the process for making a withdrawal. A withdrawal that is not a qualified withdrawal may have tax consequences. You should consult your tax advisor.

## WHAT TAXES OR CHARGES MAY BE APPLICABLE TO WITHDRAWAL?

As discussed below, a withdrawal may be subject to federal and state taxes, and a contingent deferred sales charge may be assessed. This Investor's Guide does not discuss state tax consequences associated with withdrawals. You should consult a tax advisor.

There are two components to a withdrawal — a withdrawal of principal (the amount contributed to the 529 college savings plan account) and a withdrawal of earnings (the amount of market return or interest earned on the contributions made to the 529 college savings plan account). Whether the earnings portion of the withdrawal is subject to federal tax depends on the purpose for which you will use the withdrawal. Each withdrawal you make will fall in one of the following categories:

➔ **Qualified withdrawal** — A qualified withdrawal is a withdrawal that is used to pay for the qualified higher education expenses of the designated beneficiary

at an eligible institution. Qualified withdrawals are excludable from the account owner's and the designated beneficiary's taxable income. For purposes of calculating qualified higher education expenses for this purpose, such expenses must be reduced by (i) the amount of the designated beneficiary's qualified higher education expenses that are taken into account when determining the designated beneficiary's Hope/American Opportunity Credit or Lifetime Learning Credit and (ii) amounts received by the designated beneficiary as scholarship awards and as other nontaxable educational assistance (other than gifts or inheritances).

- ➔ **Taxable withdrawal** — A taxable withdrawal is a withdrawal from a 529 college savings plan account that is:
- Paid to a beneficiary of, or the estate of, the designated beneficiary, on or after the designated beneficiary's death or attributable to the permanent disability of the designated beneficiary;
  - Made based on the receipt by the designated beneficiary of a scholarship award or veterans' or other nontaxable educational assistance (other than gifts or inheritances), but only to the extent such withdrawals do not exceed the amount of such scholarship or assistance; or
  - Made based on the designated beneficiary's attendance at a military academy, subject to certain limitations.



The earnings portion of a taxable withdrawal is subject to federal income tax but is not subject to an additional 10 percent federal tax.

➔ **Rollover** — You may:

- Roll over funds from a 529 college savings plan account to an account in another state's 529 college savings plan for the same designated beneficiary without adverse federal tax consequences, provided that at least 12 months have elapsed from the date of a previous transfer to a 529 college savings plan for that beneficiary.
- Roll over funds from a 529 college savings plan account to another account in the same 529 college savings plan for a new designated beneficiary without adverse federal tax consequences, provided that the new beneficiary is a member of the family of the previous beneficiary.
- Roll over funds from a 529 college savings plan account to an account in another state's 529 college savings plan for a new designated beneficiary without adverse federal tax consequences, provided that the new beneficiary is a member of the family of the previous beneficiary.

To avoid adverse federal tax consequences, rollovers must occur within 60 days of the withdrawal.

The 529 college savings plan of another state may impose restrictions on or prohibit certain types of rollovers. You should check that 529 college savings plan before you make a rollover.

- ➔ **Unqualified withdrawal** — An unqualified withdrawal is any withdrawal that is not one of the above types of withdrawals. The earnings portion of an unqualified withdrawal is subject to federal income tax and to an additional 10 percent federal tax.

Also, depending on the investment option, it is possible that a contingent deferred sales charge may be assessed on the withdrawal.

You should consult with a qualified tax advisor about withdrawals and how both state and federal tax laws may apply to your particular circumstances.



Steve's aunt Lisa made contributions to Mary's 529 college savings plan account for Steve. Lisa, however, now has significant health care costs and wants to withdraw some of the funds she contributed to Mary's 529 college saving plan to pay for those costs. What can Lisa do?

Lisa cannot withdraw any funds from Mary's 529 college savings plan account. She is not the account owner of that account. Only Mary can make withdrawals from that account.

If Mary were to make a withdrawal to help pay for Lisa's healthcare costs, that withdrawal would be an unqualified withdrawal. The earnings portion of that unqualified withdrawal would be subject to federal income tax and to an additional 10 percent federal tax.



## Account Value

### HOW WILL YOUR ACCOUNT VALUE BE DETERMINED?

The 529 college savings plan typically will credit contributions to, or deduct withdrawals from, your 529 college savings plan account at the unit value of the applicable investment option next determined on the business day your request is received in accordance with the 529 college savings plan requirements for “good order” before the close of regular trading on the New York Stock Exchange (generally, 4:00 p.m. Eastern Time). Contributions or withdrawal requests received after the close of regular trading or on a day when the New York Stock Exchange is not open typically will be credited to your 529 college savings plan account at the unit value next determined. The program disclosure booklet for the 529 college savings plan describes what “good order” means.

Each investment option is divided into units. The value of a unit in an investment option

generally is determined by dividing (i) the investment option’s assets minus its liabilities by (ii) the number of units outstanding for that investment option.

### WHAT ARE THE FACTORS THAT MAY CAUSE YOUR ACCOUNT VALUE TO CHANGE?

Your account value may increase or decrease based on a variety of factors. Among the factors are:

- ➔ Investment performance;
- ➔ A change in the interest rate credited to a fixed investment option;
- ➔ Any transfers you make to another investment option;
- ➔ Fees and charges; and
- ➔ Any withdrawal you make from the account.



Mary invests her 529 college savings plan account in Investment Option A (this investment option invests in a target-date fund) and Investment Option B (this investment option invests in a mutual fund that has the investment objective of long-term growth). Mary’s account value in January is \$18,400, but in February her account value is \$18,200. She did not make any withdrawals from the account. What may have caused the decline?

The account value may have declined because of fees and charges that were assessed and/or because of a decline in value of her investment options due to investment performance.



# Section Two: Considerations for Grandparents

## Frequently Asked Questions

After reviewing the general information about 529 college savings plans in Section One, grandparents may have additional questions about investing in 529 college savings plans. These questions may include:

### **MAY I OPEN JUST ONE 529 COLLEGE SAVINGS PLAN ACCOUNT FOR ALL MY GRANDCHILDREN?**

Generally, no. There can only be one designated beneficiary for a 529 college savings plan account. You may open a 529 college savings plan for each grandchild, or you may contribute to the 529 college savings plan account others have established for each grandchild.

### **DO I NEED TO OPEN A 529 COLLEGE SAVINGS PLAN ACCOUNT TO CONTRIBUTE TO MY GRANDCHILD'S EDUCATION?**

No, opening a 529 college savings plan is one of many options available to pay for qualified higher education expenses. There are other education-related benefits under the federal tax code that either a grandparent or a grandchild, as applicable, may be able to use to pay for or offset qualified higher education expenses. These options include:

- ➔ Coverdell Education Savings Accounts;
- ➔ Qualified United States Savings Bonds;
- ➔ Hope Scholarship Credit/American Opportunity Tax Credit; and
- ➔ Lifetime Learning Credit.

You will want to carefully review these tax incentives to avoid duplication. In addition, another option for contributing to a grandchild's education is through a Uniform Gifts to Minors Act (UGMA) and the Uniform



Transfers to Minors Act (UTMA) account. Please consult your financial advisor or tax advisor for more information.

Also, you may contribute to a 529 college savings plan account opened by someone else, such as your son or daughter, for your grandchild. However, if you contribute to that account (and don't open your own 529 college savings plan account), you:

- ➔ Will lose the ability to control that contribution — this means that you will not be able to control how your contribution is invested, whether the contribution is withdrawn from the 529 college savings plan account or whether the account owner changes the designated beneficiary for the 529 college savings plan account;
- ➔ Will not have the ability to make a withdrawal from the 529 college savings plan account if your circumstances change — this means that if you need the contribution later on because your health care costs rise and/or your financial circumstances change, you will not be able to access your contribution; and
- ➔ May not be able to receive beneficial state income tax treatment for the contribution — either because you do not live in the state where the 529 college savings plan is issued or because such benefits are only offered to account owners.

## WHAT ARE THE TAX CONSIDERATIONS FOR CONTRIBUTING TO MY GRANDCHILD'S EDUCATION THROUGH A 529 COLLEGE SAVINGS PLAN?

- ➔ **Gifting limits** — Federal tax law limits the amount that you may contribute each year without being subject to the gift tax. You currently may contribute up to \$14,000 (\$28,000 for a married couple) each year to a 529 college savings plan account for a designated beneficiary without federal gift tax consequences. If you contribute in a single year more than \$14,000 (\$28,000 for a married couple) to a 529 college savings plan account, you may elect, for federal gift tax purposes, to treat contributions up to \$70,000 (\$140,000 per married couple) as having been made ratably over a five-year period. If your contribution exceeds the gift tax limits, there could be federal gift tax consequences.
- ➔ **Reduction in size of your taxable estate** — Any contribution you make to your grandchild's education through a 529 college savings plan will reduce the amount of your taxable estate by the amount of the contribution.

## WILL MY GIFT AFFECT MY GRANDCHILD'S ELIGIBILITY FOR FINANCIAL AID?

That depends. As long as your contribution remains inside the 529 college savings plan account, those assets should not affect your





Sarah's grandmother, Isabella wants to help Sarah pay for her college education and is interested in 529 college savings plans. Isabella is in good health, but she also wants to save in case she might have more significant health care costs in the future. Isabella also wants to make certain that the funds will be used for Sarah's college education and not for other purposes or for other members of Sarah's family. What can Isabella do?

Isabella has two options: She can contribute to the 529 college saving plan account that her son Fred established for Sarah, or she can contribute to a 529 college saving plan account that she establishes. If she contributes to the 529 college savings plan that Fred established, any contribution will be considered a completed gift. This means that Fred will control how the contribution is invested, when withdrawals from the account are taken and who the designated beneficiary for the account will be. Fred could change the designated beneficiary from Sarah at any time, and Isabella could not take a withdrawal if she needs funds from the account for her health care costs. However, it may be easier for Isabella to contribute to Fred's 529 college savings plan account rather than go through the process of researching and setting up her own account.

If Sarah's grandmother Isabella contributes to a 529 college saving plan that she establishes for Sarah, Isabella will be the account owner. As the account owner, Isabella will have all the rights under the 529 college savings plan account. Isabella can elect how the contributions will be invested, transfer funds among investment options, make withdrawals from the account and ensure that Sarah is the designated beneficiary. However, Isabella will have to make all the investment decisions associated with 529 college savings plan account.

grandchild's financial aid eligibility. However, because of the way financial aid formulas treat withdrawals, a withdrawal from the 529 college savings plan account to pay for your grandchild's college expenses generally would be treated as income to your grandchild and may affect his or her financial aid. You should consult a qualified advisor.

## **WILL MY GIFT PUT MY RETIREMENT PORTFOLIO AT RISK?**

That depends on your financial circumstances. A gift toward your grandchild's education may affect your retirement savings if you use principal to pay for that education. You should carefully consider whether making a contribution is a viable financial alternative. 529 college savings plans are meant for college savings;



withdrawals for qualified higher education expenses are not taxed under federal tax law. Other types of withdrawals from a 529 college savings plan account — such as a withdrawal for your healthcare or other financial needs — will be subject to federal tax. Also, if you contribute to a 529 college savings plan account and you are not the account owner, you will have no right to make a withdrawal from the 529 college savings plan account even if your financial circumstances change.

## WHAT HAPPENS IF MY GRANDCHILD DOES NOT GO TO COLLEGE?

If you are the account owner of the 529 college savings plan account, you may transfer that account to another member of that grandchild's family, such as to your grandchild's brother or sister. If you make such a transfer, you will not incur any federal income tax on earnings or the additional 10 percent federal tax. However, if you are the account owner and you make a withdrawal for expenses that are not for qualified higher education expenses of the designated beneficiary, you may incur federal taxes.

## WHAT HAPPENS IF I DIE BEFORE MY GRANDCHILD GOES TO COLLEGE?

That depends on your 529 college savings plan account. For example, if you made a large contribution that you elected to prorate over five years, that contribution would be included in your taxable estate.

In addition, if you are the account owner and you named a contingent owner to your 529 college savings plan account, the contingent owner would become the account owner of that account. You should consult a qualified tax advisor about your circumstances.

## WHAT ELSE SHOULD I DO BEFORE I CONTRIBUTE TO MY GRANDCHILD'S EDUCATION?

- ➔ To help with your investment decision, you should ask for written information that summarizes the benefits and risks of investing in a 529 college savings plan before you invest. Also, you will want to understand the costs associated with the 529 college savings plan, including the costs associated with the investment options.
- ➔ You should compare various 529 college savings plans to determine which 529 college savings plan is right for you based on the different features and costs.
- ➔ You should consult your financial and/or tax advisor before you invest.



# Section Three:

## Additional Resources

### Sources of Information

#### WHAT INFORMATION WILL I RECEIVE ABOUT THE 529 COLLEGE SAVINGS PLAN WHEN I PURCHASE IT?

You will receive a participation agreement and a program disclosure booklet before you open your 529 college savings plan account. The participation agreement is your “contract” with the 529 college savings plan and often requires you to state that you have received and reviewed the 529 college savings plan program disclosure booklet. The program disclosure booklet describes the 529 college savings plan. It is important that you review and understand these materials. Be certain to obtain the answers to any questions you may have about the 529 college savings plan.

In addition, you may request a copy of the prospectus for any of the underlying mutual funds included in your selected investment option. You may obtain the copy of the mutual fund prospectus by downloading it from the 529 college savings plan website, downloading it from the Securities and Exchange Commission’s (SEC) EDGAR website, contacting the program manager and/or asking your dealer.

You also will receive a confirmation of any transaction relating to your 529 college savings plan account as well as quarterly account statements of your 529 college savings plan account’s activity. It is important that you carefully review your confirmations and account statements, and report any errors you see immediately to the program manager and/or dealer.



## WHAT ARE OTHER SOURCES OF INFORMATION?

Other sources of information about 529 college savings plans and the dealers that sell interests in 529 college saving plans are available online including:

- ➔ The [MSRB Education Center](http://www.msrb.org) at [www.msrb.org](http://www.msrb.org);
- ➔ [SEC Introduction to 529 Plans](#);
- ➔ [SEC's EDGAR Database](#) (for the prospectuses of the underlying mutual funds);
- ➔ SEC Publication: "[Protect Your Money: Check out Brokers and Investment Advisers](#);"
- ➔ Financial Industry Regulatory Authority's (FINRA) [Investor Alert on 529 College Savings Plans](#);
- ➔ FINRA [Smart Saving for College](#);
- ➔ [FINRA BrokerCheck](#) (database about broker-dealers);
- ➔ Internal Revenue Service's [Publication 970 \(Tax Benefits for Higher Education\)](#); and
- ➔ Internal Revenue Service's [529 Plans: Questions and Answers](#).

## Investor Complaints

### WHAT SHOULD I DO IF I HAVE A COMPLAINT?

If you have a complaint, you may contact the issuer of your 529 college savings plan.

In addition, you may file a complaint with the SEC or the MSRB by visiting their websites at [SEC.gov](http://SEC.gov) and [MSRB.org](http://MSRB.org), respectively. You also may call the MSRB's support line at 202-838-1330.

Finally, if you purchased your 529 college savings plan account through your dealer, you may contact FINRA's Investor Complaint Center at [FINRA.org](http://FINRA.org) or 240-386-4357.



Municipal Securities Rulemaking Board  
1300 I Street NW, Suite 1000 | Washington, DC 20005  
[msrb.org](http://msrb.org) | [emma.msrb.org](http://emma.msrb.org)