

# College Savings Made Simple



## SO, WHAT IS A 529?

A 529 plan is an account that allows you to invest specifically for future education expenses. Similar to IRAs and 401(k)/403(b) plans designed to help save for retirement, 529 plans are aimed at helping families save for college. The accounts are administered at the state level, and are managed by a financial services company that handles all the paperwork and oversees the investments.

## 529 PLANS OFFER MANY ADVANTAGES:

### TAX-FREE

Contributions grow tax-deferred, meaning potentially bigger gains over time. Withdrawals are tax-free when the money is used for qualified higher education expenses.

### ACCESSIBLE

Anyone who is a U.S. citizen or resident alien and at least 18 years old who would like to contribute on behalf of a beneficiary (the person for whom you are contributing money, including a minor child, a spouse or yourself) can establish a 529 account.

### FLEXIBLE

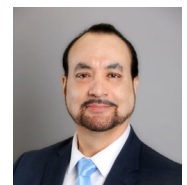
Funds can be used at eligible schools nationwide. So whether the beneficiary wants to be a rocket scientist, welder or chef, he or she is covered.

### VALUABLE

529's can be used to cover a range of expenses, including mandatory fees, books, supplies, and equipment required for enrollment or attendance, along with certain room-and-board costs.



For questions about the Connecticut Higher Education Trust or establishing your college savings payroll contributions, contact Rey Longoria



# Myths and Misconceptions

IF YOU'RE CONFUSED ABOUT 529 PLANS, YOU'RE NOT ALONE. HERE ARE SOME COMMON MYTHS AND MISUNDERSTANDINGS—AND THE TRUTHS BEHIND THEM.

## 529 savings plans are only for in-state, public colleges or universities.

**FALSE.** Funds can be used to send your your children, grandchildren, other loved ones, or even yourself to any accredited public or private U.S. college or university—or two-year technical or vocational institution—as well as qualifying international institutions. In addition, up to \$10,000 annually per student can be withdrawn for tuition expenses at a public, private or religious elementary, middle, or high school.

**THERE ARE TWO TYPES OF 529 PLANS:** 529 investment plans, such as the Connecticut Higher Education Trust (CHET), let you open an account to pay for a beneficiary's expenses at any U.S. accredited college or university or K-12 tuition. The second type is called a "529 Prepaid Plan" and lets an account holder buy future tuition credits for eligible in-state colleges and universities (many of them public) at today's prices. Prepaid plans are less common today, and many states including Connecticut do not run a prepaid plan.

## I must open a 529 account in the state where I live.

**FALSE.** You can invest your money in almost any state's 529 plan, the majority of which have no residency requirements. Before investing in a particular plan, you should consider whether the state in which you or your designated beneficiary reside or have taxable income offers any specific benefits. Some states allow you to deduct contributions from your taxable state income, giving you a financial incentive to invest in your in home state plan. Connecticut offers a generous state tax benefit of \$10,000 for joint filers, and \$5,000 for single filers. See the Disclosure Booklet for any plan you are considering for more details about that plan.

## If I save in a 529 plan my child will not get Financial Aid.

**FALSE.** Money saved in a 529 does not disqualify students for financial aid. Actually, 529 assets are typically treated as belonging to the parent (or grandparent, etc.) and count less in Expected Family Contribution (EFC) calculations than assets held in the child's name. The EFC calculation is used to determine how much the family is expected to contribute to their child's higher education. For additional information, visit [fafsa.ed.gov](http://fafsa.ed.gov) and check with the schools you are considering.

## My beneficiary gains control of the money when he or she gets to be college age.

**FALSE.** The account owner (you) is always in charge. This means you control the funds in any 529 account you open. The beneficiary cannot withdraw money or change investment options.

An individual 529 plan account is different from a custodial (UGMA/UTMA) account, where the child is the owner of the account and gains control of the funds at age of majority (typically 18 or 21 depending on the state). The tax information presented here is not intended to be used, and cannot be used, by any taxpayer for the purpose of avoiding tax penalties that may be imposed on the taxpayer. Taxpayers should seek advice based on their own particular circumstances from an independent tax advisor.



Shawn T. Wooden  
Connecticut State Treasurer



## FAQS ABOUT 529 COLLEGE SAVINGS PLANS

**Q: Can more than one person contribute to the account?**

Anyone can contribute to an account as long as the maximum account balance does not exceed the per-beneficiary threshold set by the sponsoring state. The account owner has sole control over the assets and decides when to withdraw them.

**Q: Can I change the beneficiary?**

You can change your beneficiary at any time or transfer a portion of your investment to a different beneficiary. To maintain the tax benefits, the new beneficiary must be an eligible member of the previous beneficiary's family under the IRS definition, such as a sibling, an aunt, a stepchild, a first cousin or a spouse.

**Q: What if my child or loved one decides not to attend college?**

You have three choices:

1. Keep the funds in the account, and the investments will be available in future years for a sibling or other designated family member.
2. Change the beneficiary to an eligible family member. Consult your tax advisor about whether this may create a taxable gift.
3. Make a nonqualified withdrawal. You can withdraw your principal contributions without a penalty, but any earnings will be subject to applicable state and federal taxes, plus a 10% federal penalty.

**Q: What if my child or loved one gets a full or partial scholarship?**

If your child receives a scholarship that covers the cost of qualified higher education expenses, you can withdraw funds up to the scholarship amount without any penalty. However, you'll have to pay federal and sometimes state income taxes on the earnings portion of the withdrawal.

**Q: If I open an account in my state, then move to another state, what will happen to the account?**

If you move to another state, you can still keep your money invested in your account, and you can continue contributing to it. Remember, before investing in any 529 plan, consider whether the state in which you or your designated beneficiary reside has a 529 plan that offers state income tax or other benefits to residents.