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Advantages and Disadvantages of 529 Plans

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Advantages
• People of all income levels are eligible to contribute to a 529 plan • 529 plans have high contribution limits (most plans have contribution limits of $300,000 and up) • Funds in a 529 savings plan can be used to pay the full cost of college or graduate school or K-12 tuition expenses up to $10,000 per year • 529 savings plans are open to residents of any state • At the federal level, plan contributions grow income tax deferred and withdrawals that are used to pay the beneficiary's qualified education expenses are completely income tax free at the federal level • States may offer their own income tax incentives for residents of their state, such as a tax deduction for contributions or a tax exemption for withdrawals used to pay the beneficiary's qualified education expenses • Plan contributions qualify for the $15,000 ($30,000 for joint gifts) annual gift tax exclusion, and a special election lets you contribute up to $75,000 ($150,000 for joint gifts) in a single year and avoid gift tax by treating the amount as a gift in equal installments over five years (no additional gifts can be made to the beneficiary during the five-year period without incurring a gift tax) • Plan contributions generally aren't considered part of your estate for federal tax purposes, yet you still retain control of the account during your lifetime as the account owner • You can change the beneficiary without penalty if certain conditions are met • Once every 12 months you can roll over the beneficiary's 529 account to a different 529 plan for the same beneficiary without tax or penalty implications
Disadvantages
• 529 plans charge various fees and expenses to cover investment expenses and the administration of your account • Withdrawals from a 529 plan that are not used for the beneficiary's qualified education expenses are taxed and penalized (the earnings portion of the withdrawal is subject to a 10 percent federal penalty and is taxed at the income tax rate of the person who receives the withdrawal) • 529 savings plans limit your investment choices to the pre-established investment portfolios offered by the plan; prepaid tuition plans give you no opportunity to choose your investments • 529 savings plans don't guarantee your return and are subject to risk -- you could lose some or all of the money you've contributed • 529 savings plans aren't legally required to let you change the investment option on your existing contributions twice per calendar year or allow you to choose a new investment option for any future contributions (though most plans do give you this flexibility) • You are generally limited to the prepaid tuition plan offered by your state of residence • Prepaid tuition plans are generally designed to pay the undergraduate tuition (but not room and board) costs at in-state public colleges, so the beneficiary won't get the maximum benefits under the plan if he or she attends a private or out-of-state college • Prepaid tuition plans generally require that all tuition credits be used before the beneficiary reaches age 30, and all withdrawals completed within 10 years of the time the beneficiary starts college

Note: *Investors should consider the investment objectives, risks, charges and expenses associated with 529 plans carefully before investing. More information about 529 plans is available in the issuer's official statement, which should be read carefully before investing. Also, before investing, consider whether your state offers a 529 plan that provides residents with favorable state tax benefits. As with other investments, there are generally fees and expenses associated with participation in a 529 savings plan. There is also the risk that the investments may lose money or not perform well enough to cover college costs as anticipated.*

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