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529 College Savings Plans

The Benefits of 529 Plans

There are many advantages to contributing to a qualified tuition program (QTP) or 529 Plan: income tax advantages, estate and gift tax benefits, availability and flexibility, investment benefits, and various state and federal tax benefits. A 529 Plan can be established by any U.S. taxpayer and used at almost any accredited post-secondary school in the U.S. There are no income limits for eligible participants or beneficiaries. The 529 assets are held outside of your estate, but you retain full control of your account, helping to ensure that funds are used for higher education purposes.

Highlights

Federal Tax-Free Distributions & No Tax Reporting

529 Plans offer unsurpassed income tax breaks. Although your contributions are not deductible on your federal tax return, your investment grows tax-deferred, and distributions to pay for the beneficiary's college costs come out federally tax-free. The tax deferred growth allows you to take advantage of the power of tax deferred compounding. There is no tax reporting unless there is a distribution.

Account Owner retains control of funds

You, the account owner, stay in control of the account. With few exceptions, the named beneficiary has no rights to the funds. You decide when withdrawals are taken and for what purpose. You can even reclaim the funds for yourself any time you desire, no questions asked. (However, the earnings portion of the "non-qualified" withdrawal will be subject to income tax and an additional 10% penalty tax).

Tax-Free Rollovers

You can rollover from one 529 Plan to another 529 Plan for the same beneficiary once every 12 months. The new 529 plan must be established within 60 days to qualify as a tax-free rollover. Partial rollovers are also allowed. You may rollover an account to another designated beneficiary who is a “member of the family,” which, in most cases, will be tax-free. And you can change the beneficiary as often as you want.

Fundamentals

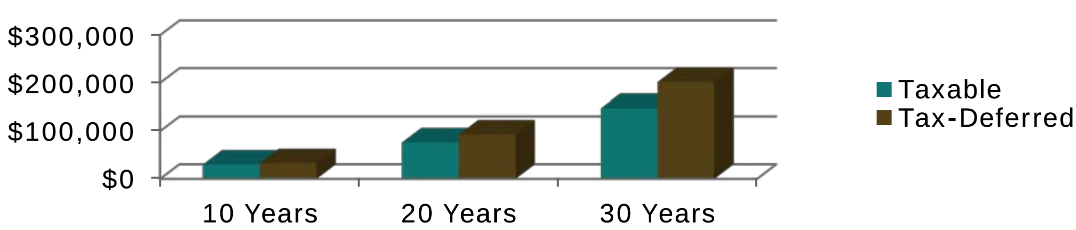
- 529 Plans don’t have income limitations for the account owner or beneficiaries.
- A 529 Plan is an education savings plan operated by a state or educational institution.
- Contributions up to $70,000 per individual ($140,000 per couple) can be invested for a single beneficiary in one year (cash only) without gift tax as long as no additional gifts are made to the same beneficiary during the next four years.
- You can change the beneficiary as often as you want.
- Investment direction and pledging of interest as security is not permitted. You can only make one investment change per year. But you can change the investment anytime you change the beneficiary.
- States establish their own individual contribution limits. Many are as high as $350,000.
- If you don’t pay for qualified higher education expenses in the same calendar year as you make a withdrawal, the earnings portion of that withdrawal will be subject to income tax and an additional 10% penalty tax.

Estate Tax Planning Benefits

- Your contribution to a 529 Plan qualifies for the $14,000 annual gift tax exclusion. Even better is if you make a contribution between $14,000 and $70,000 for a beneficiary, you can elect to treat your contribution as made over a five calendar-year period for gift tax purposes. Married couples who file jointly can contribute up to $140,000 per beneficiary in a single year.
- Your contribution is treated as a gift to the named beneficiary for gift tax and generation-skipping transfer tax (GSTT), thus the appreciation is out of your estate. GSTT is the tax that generally applies to gifts in excess of $14,000 to recipients two or more generations below the generation of the donor (e.g. grandparent to grandchild).
- There are no gift tax implications if change your beneficiary to a family member who is of the same or higher generation of your beneficiary.
- The best news is that the assets leave your estate but doesn't leave your control. You reduce your estate tax exposure through gifting, but do not irrevocably give away your assets. Note: if you later revoke the account its value comes back into your estate. Your estate will also have to include a portion of any contribution made with the five-year averaging election if you do not live past the fourth year.

Here is a powerful example of the benefits of tax-deferred compounding. Remember that all earnings in a 529 program are federally tax-deferred. Although the tax-deferred amounts shown here are before taxes, over 20 years there is a significant increase in the amount saved toward education.

The Power of Tax-Deferred Compounding



$200 Invested Monthly, 6% Growth Rate, 28% Tax Bracket

This is a hypothetical example and does not represent an investment in a specific security

Investors should consider the investment objectives, risks, charges and expenses associated with a 529 Plan before investing. This and other information is available in a Plan's official statement. The official statement should be read carefully before investing.

Depending on your state of residence, there may be an in-state plan that provides tax and other benefits not available through an out-of-state plan. Robert W. Baird & Co. does not provide tax advice. Before investing in any state's 529 plan, you should consult your tax adviser.

If you have questions or need more information, please contact:

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