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IPI Asset Management, Inc.
Integrity ☆ Performance ☆ Innovation
Strategic Lifestyle & Wealth Management

529 College Savings Plans

529 college savings plans are tax-advantaged college savings vehicles and one of the most popular ways to save for college today. Much like the way 401(k) plans revolutionized the world of retirement savings a few decades ago, 529 college savings plans have revolutionized the world of college savings. As of March 2009, there were over 11 million 529 plan accounts. (Source: College Board's Trends in Student Aid 2009)

Tax advantages and more

529 college savings plans offer a unique combination of features that no other college savings vehicle can match:

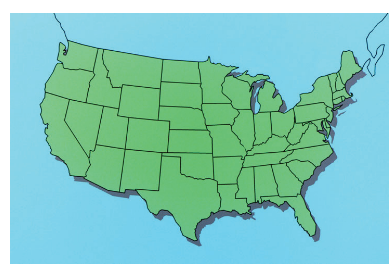
- Federal tax advantages: Contributions to your account grow tax deferred and earnings are tax free if the money is used to pay the beneficiary's qualified education expenses. (The earnings portion of any withdrawal not used for college expenses is taxed at the recipient's rate and subject to a 10% penalty.)
- State tax advantages: Many states offer income tax incentives for state residents, such as a tax deduction for contributions or a tax exemption for qualified withdrawals.
- High contribution limits: Most college savings plans let you contribute over $300,000 over the life of the plan.
- Unlimited participation: Anyone can open a 529 college savings plan account, regardless of income level.
- Professional money management: College savings plans are offered by states, but they are managed by designated financial companies who are responsible for managing the plan's underlying investment portfolios.
- Flexibility: Under federal rules, you are entitled to change the beneficiary of your account to a qualified family member at any time as well as rollover the money in your 529 plan account to a different 529 plan once per year without income tax or penalty implications.
- Wide use of funds: Money in a 529 college savings plan can be used at any college in the United States or abroad that's accredited by the Department of Education and, depending on the individual plan, for graduate school.
- Accelerated gifting: 529 plans offer an excellent estate planning advantage in the form of accelerated gifting. This can be a favorable way for grandparents to contribute to their grandchildren's education. Specifically, individuals can make a lump-sum gift to a 529 plan in 2010 of up to $65,000 ($130,000 for married couples) and avoid gift tax, provided the gift is treated as having been made in equal installments over a five-year period and no other gifts are made to that beneficiary during the five years.

A brief history

529 plans were first authorized by Congress in 1996. Known officially as "qualified tuition programs," 529 plans are so named because they are governed by section 529 of the Internal Revenue Code.

Choosing a college savings plan

Although 529 college savings plans are a creature of federal law, their implementation is left to the states. Currently, there are over 50 different college savings plans available because many states offer more than one plan.



You can join any state's 529 college savings plan, but this variety may create confusion when it comes time to select a plan. To make the process easier, it helps to consider a few key features:

- Your state's tax benefits: A majority of states offer some type of income tax break for 529 college savings plan participants, such as a deduction for contributions or tax-free earnings on qualified withdrawals. However, some states limit their tax deduction to contributions made to the in-state 529 plan only. So make sure to find out the exact scope of the tax breaks, if any, your state offers.

- Investment options: 529 plans vary in the investment options they offer. Ideally, you'll want to find a plan with a wide variety of investment options that range from conservative to more growth-oriented to match your risk tolerance. To take the guesswork out of picking investments appropriate for your child's age, most plans offer aged-based portfolios that automatically adjust to more conservative holdings as your child approaches college age.

  Caution: *Remember, though, that any investment involves risk, and past performance is no guarantee of how an investment will perform in the future.*

- Fees and expenses: Fees and expenses can vary widely among plans, and high fees can take a bigger bite out of your savings. Typical fees include annual maintenance fees, administration and management fees (usually called the "expense ratio"), and underlying fund expenses.
- Reputation of financial institution: Make sure that the financial institution managing the plan is reputable and that you can reach customer service with any questions.

With so many plans available, it may be helpful to consult an experienced financial professional who can help you select a plan and pick your plan investments, giving you peace of mind. In fact, some 529 college savings plans are advisor-sold only, meaning that you're required to go through a designated financial advisor to open an account. Always carefully read the 529 plan issuer's official materials before investing.

Account mechanics

Once you've selected a plan, opening an account is easy. You'll need to fill out an application, where you'll name a beneficiary and select one or more of the plan's investment portfolios to which your contributions will be allocated. Also, you'll typically be required to make an initial minimum contribution, which must be made in cash or a cash equivalent.

Thereafter, most plans will allow you to contribute as often as you like. This gives you the flexibility to tailor the frequency of your contributions to your own needs and budget, as well as to systematically invest your contributions. You'll also be able to change the beneficiary of your account to a qualified family member (e.g., siblings, stepsiblings, parents, nieces, nephews, aunts, uncles, first cousins) with no income tax or penalty implications. Most plans will also allow you to change your investment portfolios (either for your future or current contributions) if you're unhappy with their investment performance.

529 prepaid tuition plans--a distant cousin

There are actually two types of 529 plans--college savings plans and prepaid tuition plans. The tax advantages are the same, but the account features are very different. A prepaid tuition plan lets you prepay tuition at participating colleges at today's prices for use by the beneficiary in the future. The following chart describes the main differences:

College savings plans	Prepaid tuition plans
Offered by states	Offered by states and private colleges
You can join any state's plan	State-run plans require you to be a state resident
Contributions are invested in your individual account in the investment portfolios you have selected	Contributions are pooled with the contributions of others and invested exclusively by the plan
Returns are not guaranteed; your account may gain or lose value, depending on how the underlying investments perform	Generally a certain rate of return is guaranteed
Funds can be used at any accredited college in the U.S. or abroad	Funds can only be used at participating colleges, typically state universities

Note: *Investors should consider the investment objectives, risks, charges, and expenses associated with 529 plans before investing. More information about specific 529 plans is available in each 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.*

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