6 BENEFITS OF SAVING FOR COLLEGE WITH A PREPAID TUITION PLAN

As college costs continue to rise, prepaid tuition plans offer your clients the option to lock in future tuition at today's prices.

Prepaid tuition plans offer many of the same benefits as 529 savings plans, such as tax-deferred growth, tax-free withdrawals and favorable financial aid treatment, without the investment risk.

DID YOU KNOW?

Most prepaid tuition plans have state residency requirements and are designed to save for in-state public colleges. Private College 529 is available nationwide and is the only prepaid tuition plan that allows your clients to prepay tuition costs at private colleges and universities across the country.

Private College 529 Plan℠

Savingforcollege.com

SIX REASONS TO CONSIDER ADDING A PREPAID TUITION PLAN TO YOUR CLIENTS' COLLEGE SAVINGS PORTFOLIO

1

COST SAVINGS

With a prepaid tuition plan, your clients can pay for future college tuition and fees at today's prices. Based on historical data, the cost of a college education roughly triples over any 17-year period. That means the cost of college for a new baby may be three times what it is today.

Clients can save thousands of dollars by locking in today's college tuition prices. For example, if one year of private college costs about $30,000 today it would cost nearly $45,000 in 10 years, assuming 4% annual increases. Prepaying today would mean a savings of about $15,000.

There is no requirement to purchase a whole year of tuition up front. Private College 529, like many plans, offers flexible purchase options including monthly, quarterly and annual contributions.

2

TAX BENEFITS

Prepaid tuition plans receive the same federal and state tax benefits as 529 savings plans. Your clients' prepaid tuition is tax-deferred, and distributions are tax-free when the funds are used to pay for qualified education expenses. Residents of over 30 states, and the District of Columbia, may be eligible for a state income tax deduction or credit for contributions to a 529 plan.

DID YOU KNOW?

If your clients live in Arizona, Arkansas, Kansas, Minnesota, Missouri, Montana or Pennsylvania they are eligible to claim an income tax deduction for contributions to any 529 plan, including Private College 529.

Prepaid tuition plans may also be used as an estate planning tool. Contributions are considered gifts for tax purposes, and up to $15,000 ($30,000 for joint filers) qualifies for the annual gift tax exclusion and will not count against the lifetime estate and gift tax exemption. The amount of the contribution is removed from the account owner's taxable estate.

Contributions between $15,001 and $75,000 can be spread evenly over a 5-year period using 5-year gift tax averaging. For example, a grandfather and grandmother may each contribute $75,000 per grandchild in a given year, provided they make no other contributions in the following 5 years.

3

REDUCED INVESTMENT RISK

When clients contribute to a 529 savings plan, they typically select an investment portfolio that may expose their contributions to market risk and volatility. With a prepaid tuition plan, that investment risk is managed by the sponsoring state or plan manager. Moreover, some prepaid tuition plan managers guarantee payment of the prepaid tuition. For example, Private College 529 member institutions make a binding commitment to accept tuition certificates for future tuition and mandatory fees.

As the beneficiary gets closer to college, rather than switching to a conservative investment portfolio within a 529 savings plan, account owners (typically parents or grandparents), may roll any portion of the funds into a prepaid tuition plan to help mitigate risk. However, some prepaid tuition plans may have time restrictions. For example, tuition in a Private College 529 account must be held for at least 36 months before it can be redeemed.

DID YOU KNOW?

Private College 529 allows your clients to prepay future tuition costs at hundreds of leading private colleges and universities nationwide, including Stanford, Princeton, MIT, Georgetown, Duke, Notre Dame, Amherst and hundreds more.

4

FLEXIBILITY

It's impossible to predict the college or type of college children will one day attend. In fact, there's no guarantee he or she will attend college at all. Students may also receive a full or partial scholarship that could cover some of their tuition costs. If there are excess funds in a prepaid tuition plan, your clients may request a refund or change the beneficiary to a qualifying family member. The earnings portion of a refund is typically subject to income tax and a 10% penalty, but the penalty is waived when the student receives a scholarship.

Most state sponsored prepaid tuition plans are designed to cover future costs at an in-state public college, but the value of the plan can be used at any college or university nationwide. If a student has a Private College 529 account and decides not to attend one of the hundreds of participating colleges or universities, the family may request a refund or roll the funds into a state-sponsored 529 savings plan.

5

FAVORABLE FINANCIAL AID TREATMENT

The value of a students prepaid tuition plan has a minimal effect on need-based federal financial aid. Prepaid tuition plans owned by a parent or dependent student are treated as parent assets on the Free Application for Federal Student Aid (FASFA). The FAFSA considers no more than 5.64% of parent assets as available funds to pay for college, compared to 20% of student assets. For example, $10,000 held in a prepaid tuition account may reduce a student's need-based federal aid eligibility by no more than $564. However, $10,000 saved in the student's own (non-529) savings account may reduce eligibility by as much as $2,000.

Some colleges and universities may consider parent assets differently when determining eligibility for institutional financial aid. Parents should consult with the school's financial aid office and their tax advisor about their particular situation.

6

WORKS WELL ALONGSIDE A 529 SAVINGS PLAN

Prepaid tuition plans typically only cover costs of tuition and fees at a particular college or group of colleges. Families have to come up with another way to pay for things like room and board, books and equipment, which can be over $12,000 per year. One option is to use a prepaid tuition 529 plan to cover tuition and fees and a 529 savings plan to pay for other expenses.

Withdrawals from a 529 savings plan are tax-free when the funds are used to pay for qualified expenses including tuition, fees, books, computers, internet access and room and board if the student is enrolled at least half-time.

DID YOU KNOW?

Unlike 529 savings plans, your clients who use Private College 529 pay no fees. Every dollar contributed to the Plan pays for future tuition.

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