PAYING FOR COLLEGE
THE BENEFITS OF USING A 529 PLAN

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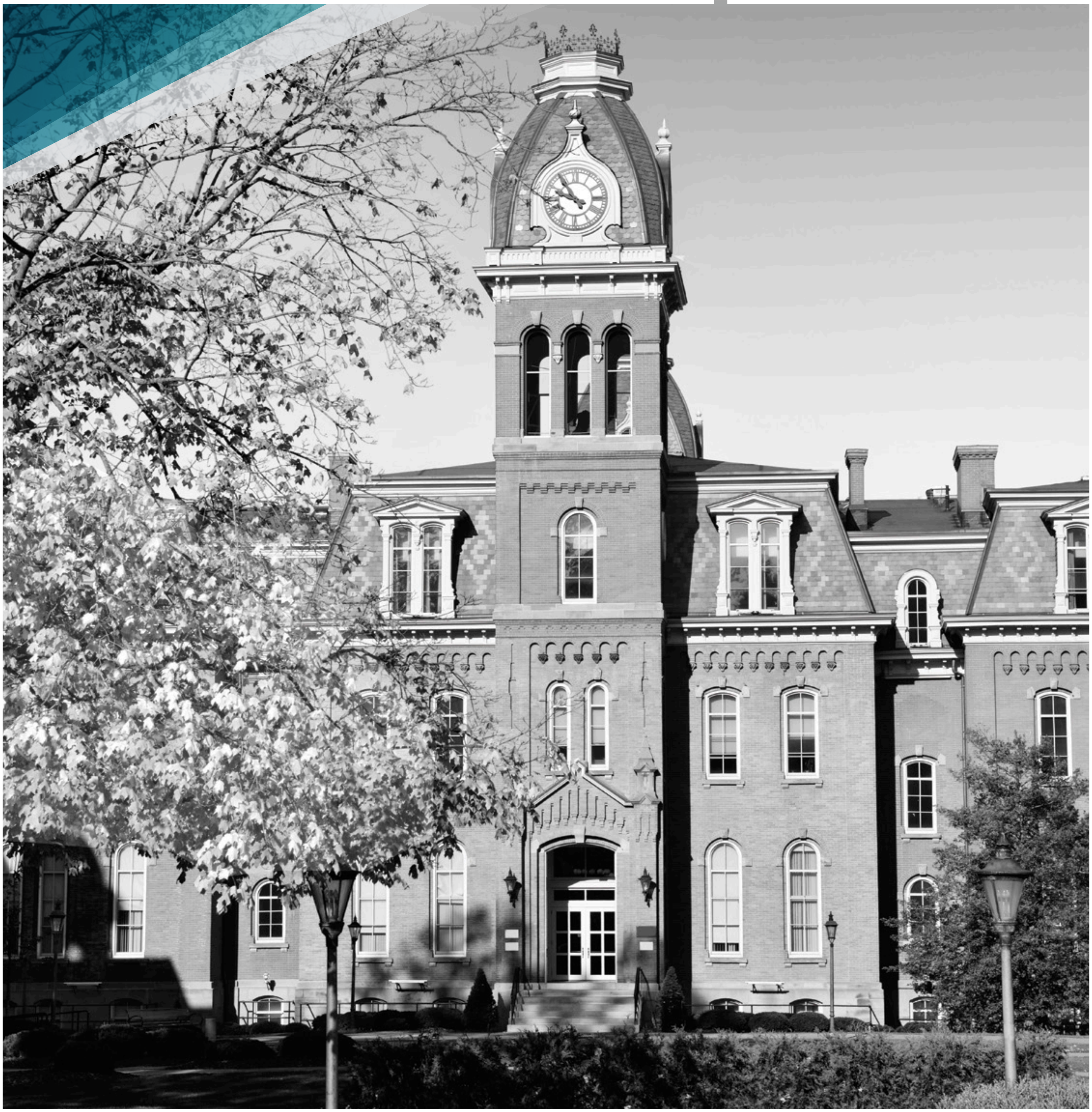


Education is the Cornerstone of Personal Development

And a college education can open doors for your children that would otherwise be closed.

However, the next generation of students will face a difficult reality. Across the country, higher education is becoming increasingly expensive. Saving to cover the cost of tuition, books and fees can seem daunting, but with consistent investing, sound financial advice and a 529 plan, affording college educations for the children in your life is achievable.

Saving for College—More Important Than Ever

COLLEGE COSTS ARE RISING

Over the years, acquiring some level of post-secondary education has become necessary for surviving and thriving in a highly competitive—and expensive—world. Statistics from the College Board show the typical bachelor's degree recipient can expect to earn over 66% more than the typical high school graduate over a 40-year working life, a financial advantage that is amplified even further with higher levels of education.*

While the value of a college education continues to rise, so does the cost of achieving this education goal. Long gone are the days when students could pay their own way through college, as increasing college tuitions are continuing to rise at staggering rates. Between academic years 2002–2003 and 2012–2013, tuition and fees at public, four-year colleges and universities rose at an average annual rate of 5.2% per year beyond general inflation. Tuition and fees at private, four-year colleges rose at an average annual rate of 2.4% beyond inflation. This trend is likely to continue.

FINDING THE BEST WAY TO PAY

The next generation of students will likely turn to federal grants, scholarships, financial aid and student loans to help pay for college. However, not all students will qualify for grants or scholarships (primarily based on merit) or for financial aid (based on financial need). Student loans can be a viable option but leave you and/or your child burdened with debt that can be as large as a mortgage. A better plan is to invest in an education savings account like a 529 plan.

Once you decide to fund a 529 plan, the earlier you start saving the more likely you will be able to reach your goals. If you aim to accumulate $150,000 for your child (the total current cost of a private, four-year college or the total projected cost of an in-state, public, four-year college for a newborn), you would need to save $1,221 per month if you start saving when the child is age 10. However, if you can start saving when the child is born, you would only need to save $387 per month to achieve your goal.

* Source: College Board, "Education Pays 2010."

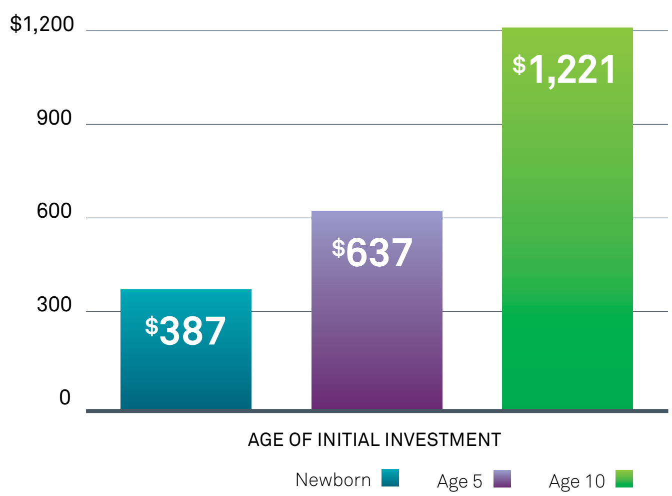
ESTIMATED TOTAL COST OF A FOUR-YEAR EDUCATION

Current Age of Child	In-State, Public	Private
18	$71,440	$158,072
15	$82,701	$182,988
10	$105,549	$223,544
5	$134,711	$298,068
Newborn	$171,929	$380,419

Sources: BlackRock; College Board, "Trends in College Pricing 2012." Figures include tuition, fees, room and board. Figures for age 18 based on costs for 2012–2013 academic year. Estimated growth rate of 5%.

STARTING TO SAVE LATER MAY BE MORE COSTLY

Monthly Savings Needed to Accumulate $150,000 by Age 18



Source: BlackRock. This is for illustrative purposes only and not indicative of any investment. This illustration assumes your ability to continue to make contributions on a monthly basis. Assumes 6% annual return compounded monthly.

Understanding 529 Plans

It is never too late to start saving for your child's education goals. You have the potential to be better prepared with a consistently executed savings strategy.

529 COLLEGE SAVINGS PLANS

529 college savings plans are perhaps the most popular education savings vehicles available. 529 plans were authorized by Congress in 1996 to encourage Americans to save for higher-education expenses. These tax-advantaged plans allow a parent, or other account holder, to establish a fund on behalf of a student for qualified education expenses. Earnings on and withdrawals from a 529 account are exempt from federal, and sometimes state, income tax as long as the money is used for eligible college expenses.

529 plans are administered by individual states and the details of each can vary. However, all 529 plans offer professionally managed investment solutions rather than being self-directed. Most offer age-based or risk-based asset allocation options. In an age-based plan, the underlying investments become more conservative as the beneficiary approaches college age. A risk-based plan maintains the same mix of stocks and bonds regardless of the beneficiary's age, based on the model selected by the account holder (these generally range from conservative to aggressive).

Key benefits of 529 college savings plans include:

- Tax-deferred earnings growth.
- Tax-free distributions when used for qualified education expenses. This benefit was made permanent by the Pension Protection Act of 2006.
- Significant annual contribution limits determined by the state administering the plan.
- No income restrictions for contributors.
- Professionally managed investment portfolios.
- No age limit for withdrawing funds.
- Ability to transfer unused assets to another eligible family member.
- Assets are considered the account holder's (not the beneficiary's) when applying for financial aid. *When applying for financial aid, only 5.64% of parental assets are considered when calculating aid figures, versus 20% of the student's assets. Notably, more and more grandparents are opting to open 529 accounts, and 0% of grandparents' assets are factored into financial aid calculations.*

529 PREPAID TUITION PLANS

A lesser-known variation of the 529 program is the 529 prepaid tuition plan. Prepaid plans may be administered by states or higher education institutions. Account holders essentially pay an amount up front based on current tuition costs for a specific in-state college or university. The plan invests this money and, in turn, guarantees that it will cover the cost of tuition when the child ultimately enrolls in the state school.

If the child does not attend the in-state school, most plans will allow the funds to be transferred to a private or out-of-state school, although any difference between the prepaid tuition and the chosen school's present-day tuition will be due to that school.

Comparing Your College Savings Options

As you put together a strategy for your education savings plan, it is important to understand the many different options available.

POINTS TO CONSIDER WHEN CHARTING YOUR EDUCATION SAVINGS COURSE

	529 SAVINGS PLAN	COVERDELL ESA	UGMA/UTMA
Funds May Be Used For	Eligible college expenses	Eligible K–12 and college expenses	Funds may be withdrawn at any time for any purpose
Contribution Limit	▸ Depends on state/plan; usually quite high ▸ Gift tax consequences for exceeding $14,000 per contributor per year or $70,000 per contributor for a five-year contribution made in a single year*	▸ $2,000 per student per year ▸ Beneficiary must be under age 18 at the time of contribution unless he/she has special needs	▸ No limit ▸ Gift tax consequences for exceeding $14,000 per contributor per year
Income Limit	No income limitations; anyone can invest	$110,000 for single filers; $220,000 for joint filers	No income limitations; anyone can invest
Federal Tax Treatment	Withdrawals are tax-free if used for qualified expenses	Withdrawals are tax-free if used for qualified expenses	Withdrawals are taxable, usually at the child's tax rate
Investment Options	Professionally managed portfolios; generally age- or risk-adjusted	Self-directed and flexible; account holder builds portfolio	Self-directed and flexible; account holder builds portfolio
Control of Assets	Control remains with account holder/contributor†	Control usually remains with account holder/contributor	Control transfers to beneficiary at legal age of majority
Transferability/ Change of Beneficiary‡	Account assets may be transferred to another eligible family member of any age	Account assets may be transferred to another eligible family member under age 30	Account assets cannot be transferred to another beneficiary
Age by Which Funds Must Be Used/ Transferred	No age limit	By age 30	By age of majority
Impact on "Needs-Based" Financial Aid	Funds are considered the account holder's when applying for financial aid	Funds are considered the account holder's when applying for financial aid	Funds are considered the child's when applying for financial aid
Penalties	Unused money must be transferred to another beneficiary for college expenses or is subject to taxes and penalties if withdrawn for other purposes	Unused money must be transferred to another beneficiary for eligible expenses (or can be rolled into a 529 plan) or is subject to taxes and penalties if withdrawn for other purposes	No penalties if not used for college expenses; unused funds are distributed to child at age of majority

* Under a special rule, contributions of $70,000 ($140,000 for married, filing jointly) can be made in one year and prorated over a five-year period without incurring gift taxes or reducing your unified estate and gift tax credit. If the contributor dies before the five-year prorating period expires, the contributions allocated to the remaining years move back into the contributor's taxable estate. Any appreciation on the entire original gift is not considered part of the estate. † If the 529 is held as a custodial account, such as when an UTMA is rolled into a 529, the control converts to the child at the age of majority. ‡ Please see the Program Description for more details regarding changing beneficiaries or transferring assets.

Uncovering the Truth About 529 Plans

Although 529 college savings plans have been around for years, a few common misconceptions persist. Do not let the following mistaken beliefs lead you to miss out on the benefits of using a 529 plan to save for a child's education.

MISCONCEPTION 1

You can only invest in your state's plan.

REALITY

You can invest in any 529 plan from any state. However, some states, potentially including your or the designated beneficiary's home state, offer 529 plans that provide taxpayers with state tax and other benefits that are only available through the home state's 529 plan.

MISCONCEPTION 2

A 529 plan can only be used at schools in that plan's state.

REALITY

You can use the assets at any eligible school (i.e., one that is accredited for financial aid) around the country and abroad. That includes two- and four-year colleges, graduate schools (including law and medical) and vocational/technical schools.

MISCONCEPTION 3

You make too much money to contribute to a 529 plan.

REALITY

Unlike other savings vehicles such as Coverdell ESAs, 529 plans do not have income limitations for contributions. In fact, "Accelerated Gifting" allows the account owner to apply up to five years of annual gift tax exclusions in a single lump sum contribution ($70,000 if single or $140,000 if married, filing jointly) in a single year without incurring a gift tax.* Contribution funding limits vary and are established by each plan.

MISCONCEPTION 4

If your child does not go to college, you will lose the money.

REALITY

Unlike other college savings options, a 529 plan account owner controls the account. That means you can change the beneficiary to another eligible "member of the family" (as per plan rules). Assets in a 529 plan account can grow in perpetuity; there are generally no time or age limitations on use or distribution of plan assets.† 529 plan assets can also be returned to the 529 plan account owner with a non-qualified withdrawal, but earnings will be subject a 10% federal penalty as well as federal, state and local income tax.

MISCONCEPTION 5

If your child receives a scholarship, you will lose the money.

REALITY

529 plan assets can be returned to the 529 plan account owner with a non-qualified withdrawal—the 10% federal penalty will be waived in this instance—but earnings will be subject to federal income tax, as well as state and local income tax. Alternatively, you could change the beneficiary to another eligible "member of the family."

MISCONCEPTION

6 A 529 plan is only for kids.

REALITY

There is no maximum age for a 529 plan. Anyone of any age can use a 529 plan to save for higher education including college, graduate schools and vocational/technical schools. In fact, you can be your own account's beneficiary. As long as your school is eligible, you can use 529 plan assets—even if you are not attending full-time.

MISCONCEPTION

7 You can only use 529 plans to pay for tuition.

REALITY

You can use your account assets to pay for many qualified higher education expenses, including tuition, fees and certain room and board costs.

MISCONCEPTION

8 Only a parent can be a 529 plan account owner.

REALITY

With few exceptions, there are no limitations on account owners or beneficiaries.‡ Trusts, corporations and custodial accounts with valid tax ID numbers may also be account owners.

MISCONCEPTION

9 Only the account owner can contribute to a 529 plan.

REALITY

For most 529 plans, anyone can contribute to an account that has been set up. Only one account owner can be set up per account, but other family members and friends can contribute.

MISCONCEPTION

10 Investing in a 529 plan lowers qualification for financial aid.

REALITY

529 plan assets have a relatively small effect on federal financial aid eligibility because they are considered assets of the 529 plan account owner and will be factored into the expected family contribution at a rate of 5.64%, just like any other parental asset, if the account owner is the parent of the student. Accounts set up by grandparents for their grandchildren have no effect on financial aid eligibility.

* Under a special rule, contributions of $70,000 ($140,000 for married, filing jointly) can be made in one year and prorated over a five-year period without incurring gift taxes or reducing your unified estate and gift tax credit. If the contributor dies before the five-year prorating period expires, the contributions allocated to the remaining years move back into the contributor's taxable estate. Any appreciation on the entire original gift is not considered part of the estate. † Virginia's 529 plan has a 30–year limitation on use of assets. ‡ You must be a US citizen or resident alien, have a Social Security number or Tax Identification number and have a permanent US address.

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