COLUMBIA THREADNEEDLE INVESTMENTS

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529 best practices

One-hour presentation

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Agenda

- Efficient 529 asset consolidation strategies with custodial accounts
- Affluent family strategies
- 529 plan best practices summary
- Q&A

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529 plan overview

529 plans

- Savings plans designed to help families save for college costs
- Governed by Section 529 of the Internal Revenue Code
- Operated by either a state or higher education institution
- Two types of 529 plans
  - Prepaid tuition plan
  - Savings plan

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529 plan overview

- Unit or contract plans: Future public in-state or private institutions bought at today's prices or today's price plus a markup
- Targeted to increase in value at same rate as tuition
- Annual gift-tax exclusion and five-year accelerated gifting option apply*
- Assets excluded from donor's gross estate (in most cases)
- Not subject to federal income tax if the account is used to pay for qualified higher education expenses. All plans cover tuition and mandatory fees. Some plans allow you to purchase a room and board option, use excess tuition credits for other qualified expenses or cover all qualified education expenses.
- Refunds used to pay for qualified higher educational expenses are also federal income tax-free.
- May be exempt from state and local income taxes.
- Earnings on refunds used for nonqualified educational expenses are subject to federal income taxation and may be subject to an additional 10% tax.
- Very few states offer this type of plan; about 270 private schools participate in a private school prepaid consortium.
- May lose some value if beneficiary attends school out of state or does not attend one of the participating private schools

*Gifting provisions allow you to make a lump-sum contribution of up to five times the federal annual gift-tax exclusion, currently $14,000 for singles ($28,000 for married couples) in 2017 without incurring federal gift-tax consequences. This donation is excluded from the donor's taxable estate on a pro rata basis (1/5 per year for the five years). Donor must survive to the fifth calendar or a prorated amount will be included in the donor's taxable estate. Prepaid tuition plan

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529 plan overview

- Growth on contributions subject to market fluctuations depending on investments
- Money controlled by account owner (not beneficiary)
- States set maximum contribution level (what is necessary to provide for qualified higher education expenses)
- Annual gift-tax exclusion and accelerated gifting option apply*
- Assets excluded from donor's gross estate (in most cases)

- Withdrawals used to pay for qualified higher education expenses are federal income tax-free
- Qualified withdrawals may be exempt from state and local income taxes
- Earnings grow tax-free
- Earnings on nonqualified withdrawals are subject to income taxation and may be subject to an additional 10% tax

*Gifting provisions allow you to make a lump-sum contribution of up to five times the federal annual gift-tax exclusion, currently $14,000 for singles ($28,000 for married couples) in 2017 without incurring federal gift-tax consequences. This donation is excluded from the donor's taxable estate on a pro rata basis (1/5 per year for the five years). Donor must survive to the fifth calendar or a prorated amount will be included in the donor's taxable estate. College savings plan

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529 plan overview

What is the 529 plan market size and potential?

- $242 billion in 529 plan assets[1]
- 20.2 million undergraduates[2]
- 69% of recent high school graduates pursued a higher education degree[3]
- Average total annual cost for a four-year private college is $45,370[4]
- For the past 30 years, college prices have risen more rapidly each year than the prices of other goods and services

[1]Investment Company Institute and College Savings Plans Network, June 2016
[2]Source: U.S. National Center for Education Statistics, Projections of Education Statistics, Table 303.10 for 2015
[3]U.S. Bureau of Labor Statistics, College Enrollment and Work Activity of 2015 High School Graduates, April 2016
[4]Trends in College Pricing, 2016

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COLUMBIA THREADNEEDLE INVESTMENTS

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Efficient 529 asset consolidation strategies with custodial accounts

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Who may benefit?

Parents using:

- Uniform Gifts to Minors Act (UGMA)
- Uniform Transfers to Minors Act (UTMA) accounts to save for college

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Key considerations

- Custodial accounts established under state law that allow adults to contribute and invest assets on behalf of a minor without a trust
- UGMA or UTMA custodial accounts used when there are other intended uses for assets beyond covering college costs
- Investment income over $2,100 (in 2017) for children age 18 or under (19 - 23 if full-time student) if child's earned income doesn't exceed one-half of their support taxed at the parents' rate (if higher) vs. the child's rate
- Contributions are completed gifts (irrevocable)
- Annual gift-tax exclusion of $14,000 in 2017 applies per donor per recipient
- When minor reaches age of majority under the state's UGMA/UTMA statute, UGMA or UTMA accounts become the property of the beneficiary
- Treated as student assets for federal financial aid purposes; higher inclusion rate (20% vs. 5.64%)[1]

[1]U.S. Department of Education, The EFC Formula 2017-2018

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Key considerations

529 plans

- College savings plans are operated by either a state or educational institution.
- Assets in UGMA and UTMA accounts can be transferred to 529 plans if they are liquidated to cash.
- Transferred UGMA and UTMA accounts to 529 plans must be maintained as custodial accounts (i.e., custodian cannot revoke UGMA and UTMA assets in 529 plan accounts).
- Once UGMA and UTMA accounts are transferred to a 529 plan:
  - Future earnings are tax-deferred
  - Distributions for qualified higher educational expenses of the beneficiary are income tax-free
  - Assets are not treated as a student's assets for federal financial aid purposes

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Practice tips

- Custodians of UGMA and UTMA accounts may realize significant future tax savings for owners if they transfer assets to a 529 plan.
- Transferring UGMA or UTMA account assets to a 529 plan can enhance the UGMA or UTMA beneficiary's eligibility for federal financial aid.
- Offer to complete a college savings analysis, which is a review of how much they might save in taxes, by transferring assets to a 529 plan.
- Talk to clients about making future contributions to a separate 529 plan, which they could retain the right to revoke (unlike an UGMA/UTMA account).

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Next steps

“Are you aware of the future tax savings you could realize by transferring your UGMA and UTMA assets into accounts into a 529 plan?”
“Did you know that you could improve your family’s needs-based financial aid profile by moving your UGMA and UTMA assets into a 529 plan?”

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COLUMBIA THREADNEEDLE INVESTMENTS

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Affluent family strategies

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Who may benefit?

- High-net-worth clients (or their relatives) with potential estate tax burdens who want to be able to gift more than the annual gift tax exclusion limit without gift tax consequences
- Clients who want to jump-start 529 plans for beneficiaries

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Key considerations

- Each person has an annual gift-tax exclusion of $14,000 ($28,000 per couple) in 2017. A separate annual exclusion applies to each person to whom a gift is given.
- 529 plans accelerated gifting results in the removal of up to $70,000 (for a single person) or $140,000 (for a couple) from the taxable estate in 2017.
- Accelerated gifting:
  - Elect to treat a donation as five separate, equal gifts made over a five-year period for gift tax purposes
  - Helps avoid potential gift or estate tax for high-net-worth individuals
  - Donation will be excludable from estate on a pro rata basis
  - To fully avoid estate tax, donor must survive to January 1 of the fifth calendar year

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Key considerations

- Accelerated gifting also removes the income and estate tax from potential future growth.
- Donors elect the accelerated gifting option on IRS Form 709, United States Gift (and Generation-Skipping Transfer) Tax Return.
- 13-Month Letter of Intent" strategies can be used to achieve break points and can be managed according to cash flows and/or bonus cycles.
- Rights of accumulation allow an investor to combine the current value of qualified shares already owned with the value of a proposed purchase to reach a break point level that qualifies for a reduced sales charge.

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Example

Year	First gift: $35,000 year one	Second gift: $35,000 year two	Total gift by year
2017	Gifting year $7,000		$7,000
2018	Gifting year + 1 $7,000	Gifting year $7,000	$14,000
2019	Gifting year + 2 $7,000	Gifting year + 1 $7,000	$14,000
2020	Gifting year + 3 $7,000	Gifting year + 2 $7,000	$14,000
2021	Gifting year + 4 $7,000	Gifting year + 3 $7,000	$14,000
2022		Gifting year + 4 $7,000	$7,000

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Next steps

"Would you and your spouse be interested in reducing your taxable estate by $140,000 without gift-tax implications, while allowing those assets to remain under your control and grow tax-free?"

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529 plan best practices summary

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Summary

- Overview of 529 plans
- Efficient 529 plan asset consolidation/custodial account strategies
- Affluent family strategies

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Q&A

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