529 Accounts – Frequently Asked Questions

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Michael D. Axel, CFA


Jacob D. Benedict, CFA


Ryan A. Kay, CFP®

What is a CollegeChoice 529 plan?

- Named after section 529 of the Internal Revenue Code, these plans came about in 1996. They are specifically set up to pay for the higher education expenses of a beneficiary. Each state has a different version of the plan with different benefits and fees. In Indiana, they are called CollegeChoice plans.
  - There are two types of CollegeChoice 529 plans: Advisor and Direct.
  - Advisor plans are sold through financial advisors who choose to offer them. There is a sales charge involved.
  - AMI uses the Direct plan, which allows clients to open up accounts at a lower cost since there is no sales charge. Advisors such as AMI can be added as third parties on the account.

What are the benefits to using one?

- Earnings grow tax free, as long as they are used for college expenses, and are not subject to federal income tax when used to pay higher education expenses.
- A big benefit of the Indiana plan is a tax *credit* for Indiana residents, who are eligible for a credit in the amount of 20% of their contributions to 529 plans. The maximum credit is $1,000, which would come from a $5,000 contribution.
  - The credit is *per household*. You cannot get multiple tax credits, no matter how many 529 accounts you have.
  - It is important to note that you can contribute more than $5,000 if you like.
    - You will still get attractive tax treatment when you use the money for college expenses.
    - You just won't get any more than a $1,000 tax credit.
- Each state has different benefits for residents. For example, in Ohio, there is a $4,000 tax *deduction* per beneficiary. In California, there is no tax benefit for in state residents, but the fees are among the lowest of any state.

Do I have to use my own state's plan?

- No, you can sign up for any state's plan. However, you won't get the benefits of the plan if you aren't a resident of that state.
- The state of the plan has no effect on where the beneficiary can go to college. Most higher education institutions nationwide are qualified under any 529 plan.
- There are various reasons why someone might use another state's plan.
  - Perhaps the benefit for your state isn't something you are interested in and another state has lower fees, or perhaps you prefer the investment options of a different state's plan.
  - However, in Indiana, the plan is set up so it almost always makes sense to use the in-state plan because of the tax credit you receive.

What are the different investment options?

- There are two ways to invest within a CollegeChoice 529 account: age-based portfolios and individual portfolios.
    - Age-based portfolios are run automatically and require little maintenance. The portfolio risk/reward is based on the age of the beneficiary. For younger beneficiaries, the investments are more aggressive. As he/she ages, they get continually more conservative.
    - Individual portfolios offer a selection of funds for the account owner to choose from. Each has different goals and benchmarks, allowing you more customization. These do *not* automatically change based on age.
    - You are permitted to change your investment option twice per calendar year.
    - You can put all of the money in one of the above options, or split it between the two.

What are the fees?

- Asset-based fees range from 0.26% to 0.90% in Indiana, depending on the investment option you choose.
- For non-Indiana residents, or accounts under $25,000, an account maintenance fee of $20 is charged annually.
- There are no commissions, loads, or sales fees affiliated with the Direct plan.

How can I make contributions to a plan?

- There are several ways:
    - Send a check to CollegeChoice 529 Direct Savings Plan
    - Transfer funds on demand from your bank
    - Set up a recurring contribution from your bank
    - Have money deducted from your paycheck (participating employers only)
    - Rollover of another 529 plan or ESA (not eligible for tax credit)
    - Transfer a UGMA/UTMA (not eligible for tax credit)
- An account must be initially funded with at least $10.
- Subsequent contributions must also be $10 or more.
- Keep in mind, if you close the account within 12 months of funding it or roll it over to another state's plan the state can recapture the tax credits you have earned (meaning you'll have to pay that amount).

Can I start one for someone who isn't my child?

- Yes. You can open a CollegeChoice 529 account for anyone: relatives, friends, children, adults, or even yourself.
- You can also contribute to an existing plan that you are not the owner of, and you *are* eligible for a tax credit. For example, grandparents can make contributions to accounts owned by their children for their grandchildren.
- Whoever contributes the money is eligible for the tax credit.
- The account owner will always control the account and the money inside, regardless of who contributes.
- If you live in a different state, you can still contribute, but you won't get any tax benefits.

What is considered a qualified expense?

- Qualified withdrawals for higher education expenses will not be assessed a penalty.
- This includes tuition, mandatory fees, books, supplies, any equipment required for enrollment or attendance, certain room and board expenses as long as the student is enrolled half-time, and certain expenses for special needs students.
- Student loans do *not* count as a qualified expense.

What happens if I need to take money out for other reasons?

- Money withdrawn for other reasons than those specified above will be subject to a 10% penalty on the growth of your funds, plus income tax.
- You can withdraw your contributions at any time without being subject to the 10% penalty.

- Additionally, non-qualified withdrawals of any kind will be subject to state tax credit recapture, meaning you'll owe the state for those tax credits you previously earned.

What if the beneficiary doesn't go to college or doesn't use the money?

- You have several options if the beneficiary doesn't use the money:
  - Leave the money invested in the plan. There is no time limit, so if the beneficiary decides to go to college later, it can still be used.
  - Change the beneficiary. This can be done at any time, but the new beneficiary has to be a member of the same family as the previous beneficiary. Same family includes child or step-child, sibling, step-sibling or half-sibling, parent or step-parent, grandparent, grandchild, niece or nephew, aunt or uncle, first cousin, mother- or father-in-law, son or daughter-in-law, brother- or sister-in-law, and spouse of any individual listed (except first cousin).
  - Withdraw the money for other uses. This can also be done at any time, but keep in mind there is a 10% penalty on the growth in your account, plus income taxes will be owed, and your previously earned tax credits are subject to be recaptured by the state.

Does money in a 529 plan count against federal aid?

- 529 accounts are reported on the FAFSA each year and do have an effect on financial aid.
- In general, a maximum of 5.64% of the assets in the account will be used in calculating the Expected Family Contribution on the FAFSA.
  - For example, if you have $25,000 of assets, federal aid eligibility may decrease by $1,140 ($25,000*5.64%) in that year.
- One perk is that withdrawals from 529 plans owned by parents of the beneficiary do *not* factor into the income equation for the following year, so withdrawing a large sum this year won't affect your financial aid eligibility next year.
  - This is not true if the account is owned by someone other than the parent of the beneficiary (i.e. grandparent).

Didn't the 2017 tax reform law affect 529 accounts?

- Yes, on December 22, 2017 the President signed H.R. 1, the federal tax reform bill, into law. The law permits withdrawals from a 529 college savings account up to $10,000 per year per student for tuition expenses in connection with enrollment and attendance at an elementary or secondary public, private or religious school ("K-12 tuition").
- Indiana taxpayers should consult their tax advisors before making a withdrawal for K-12 tuition and/or before making a contribution which they intend to ultimately withdraw for K-12 tuition. It may require action by the Indiana General Assembly to extend favorable Indiana state tax treatment to withdrawals for K-12 tuition taken from a CollegeChoice Savings Plan account. Additionally, if a distribution is not considered qualified for state tax purposes, it would trigger a recapture of previous state tax credits claimed under Indiana tax law.
- Account owners can withdraw assets to pay K-12 tuition and treat the withdrawals as qualified expenses for federal tax law purposes.

Where does AMI come into play?

- AMI is proud to help our clients with CollegeChoice 529 Direct accounts.
- We do not charge a fee; rather, we offer this as a service to our clients.
- We can assist in all aspects of 529 plans, whether it be opening and transferring accounts, setting up contributions, choosing an investment portfolio, taking withdrawals, and more.
- If you plan on providing money for a beneficiary's college expenses in the future and don't yet have a plan, or have questions about your existing plan, please contact the investment professionals at AMI today.