

YOU MAY PASS THIS FREE MINI E-BOOK ON TO A FRIEND OR FAMILY MEMBER TO HELP EXPOSE THIS AMAZING 529 COLLEGE SAVINGS PLAN SO THEY ALSO CAN PLAN FOR A BETTER AND BRIGHTER FUTURE.



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CHAPTER 1 - INTRODUCTION TO 529 PLANS

Based upon the statistics from the United States Bureau of Labor Statistics, it shows that employers show favour to applicants with a college degree over another candidate with only a high school diploma. College graduates may even receive a higher salary than those with job related experience, but who have never been to college. This can prove to be discouraging for some and stressful for others. Unfortunately, knowing that college is one path to success is not productive unless one can actually attend and graduate from one. Below is a graph showing the increase of college costs over a four year span.

Source: Trends in College Pricing 2005, The College Board®

Assumes a 5% increase in college costs each year and a child entering college at age 18.

The continuing increase in price for college tuition and related educational expenses may cause alarm for some who have not taken the time to financially prepare to send a loved one off to school. Years of strict budgeting and knowledge of savings plans are usually needed in times like this, but sometimes the decision to go to school is not made in enough time to take the proper course of action.

Section 529 plans were devised in 1996 to offer families a tax advantaged medium for college expenses. Using this plan can help aid in a successful journey to college for the beneficiary, but there is key information to take into consideration when making a decision to invest in a Section 529 plan.

Stocks and investment bonds have already been chosen by Section 529 plan sponsors to give contributors an option where to invest their money. Section 529 plans will mandate that you divide your investment contribution geared towards an asset allocation based upon the age of the beneficiary. Basically, the plan will advise for your investment choice to be more aggressive for younger beneficiaries and less aggressive for students nearing entrance into college.

Sponsored by educational facilities, states, and state agencies, there are two plan types available for section 529. They are pre-paid tuition plans and college savings plans. The United States and the District of Columbia supports the minimum of either one of these plans. Also, there are a number of private universities that sponsor a pre-paid tuition plan as well.

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There are also several marketing techniques that were developed for the Section 529 plan where an employer can offer a Section 529 Section plan as a payroll deduction or other options to their employees. They also can offer an affinity rebate program that funds college savings plan accounts from funds rebated by participating merchants from where the investor purchases goods or services.

PRE-PAID TUITION PLANS

Generally, pre-paid tuition plans are supported by state agencies and have a residency requirement for the participant and offer a plan guarantee backed by the state.

COLLEGE SAVINGS PLANS

Savings plans that are offered differ from pre-paid tuition plans in various ways. They do not guarantee a lock on tuition prices but contributing to a savings plan covers housing, tuition, mandatory fees, and miscellaneous items such as books. They have contribution limits in excess of \$200,000.

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CHAPTER2 - 529 FUND ISSUES AND FLAWS

Section 529 plans can be purchased in two ways:

The first option is to purchase the college savings plan directly from the state that supports the plan with no broker or third party involved in the transaction.

The second option is “advisor sold,” where investors purchase a college savings plan through a brokerage firm or bank. When this option is utilized then there are hefty fees that need to be taken into consideration such as a sales load or fee..

REGULATION OF SECTION 529 PLANS

The U.S. Securities and Exchange Commission decided in 1999 that interests in Section 529 plans are community securities for reasons of the federal securities laws. With that being said,

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HIGH FEES

There are various fees involved with the Section 529 plans that diminish the purpose of purchasing a college savings plan in the first place. It is imperative to understand the fine print associated with the plan. Administration and enrolment fees can vary by state and the plan chosen.

HOW THE FEES ARE USED

There are various levels of fees that can differ from state to state for the Section 529 savings plan, but it is the plan's responsibility to show how the fees are being used, however a main concern lies with the varying cost of administrative fees.

QUESTIONABLE BROKER PRACTICES

As previously mentioned, the NASD, Inc. is an organization that helps enforce regulations and guidelines put in place by the SEC to encourage ethical security business practices. Based on numerous customer complaints, Section 529 savings plans have been under investigation. Several consumer complaints have been filed about the fees associated with purchasing a Section 529 plan and also the lack of supervision of brokers selling these plans.

THE FINDINGS OF THE REVIEW:

The NASD, Inc. investigation is ongoing and will work together with other regulatory authorities to ensure that interests in Section 529 plans and their investments are advertised and issued in an ethical manner that protects buyers.

- **INADEQUATE DISCLOSURE**

NASD, Inc. also was concerned that information was not being fully disclosed to investors about the potential state tax benefits that are lost if an out of state Section 529 plan was purchased. It is also cause for worry when other options are not presented to the investor.

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Television commercials were also reviewed as part of their ongoing investigation. One in particular was a commercial that discussed high private college tuition costs and the focal point of the commercial included a child holding a college savings plan withdrawal check for \$250,000.

- **INVESTORS' RESOURCES**

Section 529 savings plans can cause confusion for both brokers and investors. Broker-dealers need more education so they can explain to potential customers the complexities of these plans.

MSRB

The MSRB is a self regulated organization created by Congress in the Securities Acts Amendments of 1975 to write rules in regard to security transactions in municipal securities issued by brokers, dealers, and municipal securities dealers. A unique factor in the legislation is specified in section 15B of the Securities Exchange Act which dictates that the MSRB board shall include members who are divided equally among non broker members, bank dealers, and members who are affiliated with securities firms.

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CHAPTER 3 - ALTERNATIVES TO THE 529 PLAN

The Coverdell Education Savings Accounts (ESAs). This is also known as Education IRAs. The Coverdell Education Saving Accounts are another option to save for college education. Their investment choices are almost endless. With the exception of life insurance policies, buying and selling can occur at any time.
ESAs can be purchased at most brokerage firms, a mutual fund company, or any other securities institution.

FEES AND OTHER ASSOCIATED CHARGES

Fees and other associated charges will vary based upon the investments that are chosen and the financial institution the ESA is purchased from. It is still wise to understand that any plans with fees can become costly over time and make or break the advantages to any savings plan.

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ROLLOVERS

Assets can be rolled over from one Coverdell ESA to another or the beneficiary can be changed.

CUSTODIAL ACCOUNTS

A custodial account is a Uniform Gift of Minor ACT account or Uniform Transfer to Minors Act account. A student’s guardian, grandparent, or another adult acts as a custodian for these types of accounts.

- CUSTODIAL ACCOUNTS ADVANTAGES

The initial \$750 in earnings in this account is tax free, for beneficiaries ages 14 and younger. To read about the tax rules for beneficiaries, you should read [IRS Publication 929: Tax Rules for Children and Dependents](#).

Custodial accounts have a wide array of investment options. There are no income or contribution limitations. Withdrawals can be made without penalty. It does not have to be a qualified education expense.

- DISADVANTAGES

Based upon the state in which the beneficiary lives, he or she can take ownership of the custodial account and use it however they wish when they reach a certain age. The ages can vary from 18 to 25 depending on the state in which they reside. When the adult who purchased the custodial account loses ownership to the beneficiary, this can cause conflict, if the beneficiary decides they do not want to go to college and wants to use it for something else.

SERIES EE & I SAVINGS BONDS

U.S. Series EE savings bonds that were issued after 1989 or Series I savings bonds are another tax advantaged way to save for college.

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- POSITIVES

This is backed by the credit of the United States government; the interest from these bonds is tax free when used for qualified college education expenses. The interest on Series EE and I Savings bonds is exempt from state and local taxes.

- NEGATIVES

The entire interest exclusion is available to married couples filing jointly with a modified adjusted gross income of \$91,850 and less. The same goes for single filers with a modified adjusted gross income of less than \$61,200 in 2005. The interest exclusion does not apply if your modified adjusted gross income is between \$91,850 and \$121,850 for joint filers and between \$61,200 and \$76,200 for single taxpayers.

QUALIFIED TUITION REDUCTION

If a student is allowed to study without paying tuition or at a discounted rate of tuition, the student may not have to pay tax on this benefit. This is what is called a “tuition reduction.”

OTHER KINDS OF EDUCATIONAL ASSISTANCE

- FULL BRIGHT GRANTS

A Full bright Grant is treated as a scholarship or a fellowship in regard to how much of the grant is tax free. The only thing reported is the taxable amount.

- PELL GRANTS

Pell Grants are need based grants that are treated as scholarships for reasons of deciding their tax treatment. It is tax free as long as it’s used for qualified education expenses during the year the grant is awarded. The only thing reported is the taxable amount.

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- **PAYMENT TO MILITARY PERSONNEL**

Payment received as a cadet or midshipman at an armed services academy is pay for personal services and will be reported in box 1 of Form W-2. A student will include this in the year he or she received it unless it is one of the exceptions.

- **PAYMENT FOR SERVICES**

A student must include any part of their scholarship, fellowship, or tuition reduction that represents payment for any teaching received or other services. This is mandatory even if the students who are pursuing a degree perform the services to receive a degree.

- **EXCEPTIONS TO THE RULE**

The student does not have to include in income any part of a scholarship or fellowship that represents payment for teaching, research, or other services if the money is received under:

- **VETERANS' BENEFITS**

The Department of Veterans Affairs gives compensation to veterans for education and training and it is tax free. If a veteran qualifies for education benefits, they can contact their local VA office for assistance.

- **HOPE AND LIFETIME LEARNING CREDITS**

The Hope and Lifetime Learning Credits are available to help a student offset the costs of expensive higher education by reducing the amount of your income tax.

ELIGIBILITY FOR THE CREDITS

Basically, a student is eligible for the Hope credit if all three of the following are met:

CREDIT DISQUALIFICATIONS

A person can not claim the Hope credit if any of the following applies:

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EMPLOYER ASSISTANCE AND REIMBURSEMENT EDUCATIONAL PROGRAMS

Some companies offer their employees the opportunity to go to school with incentives such as paying a portion or all of their college education. Some of these benefits

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CHAPTER 4 - WHAT IF YOU ALREADY HAVE A 529 FUND?

There are various college savings choices to decide from that have tax advantage benefits, but it wise to know which option would be best for your financial situation. State and federal laws can be confusing and it's imperative to understand the different laws for your state.

If you already have a Section 529 savings plan, make sure you read their prospectus. Most of the time it includes the investment strategy and risks associated with the plan and its investment portfolios.

CHAPTER 5- RESEARCH AND RESOURCE TOOLS

<<Find a list of great Resources and Research Tools in the Full Edition here>>

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CHAPTER 6 - KEY QUESTIONS TO ASK YOUR FINANCIAL ADVISOR

Whether you make the decision to invest in a Section 529 savings plan, mutual fund, or stock plan, it's best to know what questions to ask your financial advisor. Here are some examples:

- Can you purchase a Section 529 savings plan directly from the state or plan sponsor?
- What fees and expenses are charged by the plan?
- How much of the fees that are paid are given to a broker for payment?
- Are there exemptions or discounts given to reduce or waive certain plan fees?
- What are the plan's qualified education expenses?
- **And At Least A Dozen More**.....

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