

## Benefit Fact Sheet

### What is it?

Section 529 plans, also known as qualified tuition programs, are investment plans operated by states that are designed to help individuals save for future college expenses via the provision of tax benefits.

Participants set up an account on behalf of a designated beneficiary. Investments in the account are made post tax and earnings grow on a federal/state tax deferred basis. Withdrawals from the account for qualified expenses are federal tax-free. State tax treatment varies based on state law. In other words, a Section 529 plan allows participants to save for college, and it exempts or defers income tax on the accrued earnings until the designated beneficiary begins taking distributions from the plan.

All states now offer a prepaid tuition plan, a college savings plan, or both. California currently offers a college savings plan. With a college savings plan, money invested is used to cover the cost of college expenses which include tuition, room and board, fees, equipment, books, and supplies. California Section 529 plans allow for monies to be spent on both in-state and out-of-state college expenses. Prepaid tuition plans differ in that they allow tuition credits to be purchased at current prices for in-state expenses that will be incurred in the future.

Employer-sponsored Section 529 plans can be paid for through automatic payroll deductions. Employers may also set up direct deposit for employees who wish to contribute to Section 529 plans. When using an employer-sponsored plan, options may be limited to the types of plans that the employer has chosen to offer. Some employers only allow monies to be put toward in-state schools.

### Why offer it?

- It is estimated that the average college tuition inflation over the next decade will be [7-8% per year](#).
- Section 529 provides a convenient and tax beneficial vehicle for employees to save for qualified higher education expenses.

### What types of employers offer it?

Employers interested in offering employees a disciplined approach to save for college tuition.

### What size employers offer it?

Any size employer can offer this benefit. Larger employers represent the majority of employers that offer a Section 529 benefit.

### What are the critical underwriting or participation requirements?

Participants must be U.S. citizens or resident aliens.

### What's new in this area?

The number of schools participating in the Section 529 plans increased as hundreds of private colleges began offering prepaid tuition plans, known as Independent 529 Plans. In 2010, over [274](#) private colleges nationwide offer prepaid tuition plans.

## Benefit Fact Sheet

### How much does it cost?

- There is no cost to the employer, other than administrative expense involved in operating the direct deposit program.
- Participants in the California Section 529 can open an account for as little as \$50 or a minimum installment of \$15 per month/\$45 per quarter via direct deposit.
- Participants are charged an asset based management fee that varies depending on investment option.

### Informational link(s)

- [ScholarShare Program Info](#) (Golden State ScholarShare)
- [Saving for College FAQs](#) (savingforcollege.com)
- [Stealing Harvard](#) (CFO.com)
- [Section 529 Plans](#) (finaid.org)

### Pros and cons

#### Pros

- Provides an inexpensive way to assist employees with saving for college expenses.
- If the designated beneficiary does not attend college, the monies can be used to pay for another family member's college expenses.
- Payroll deduction and direct deposit makes it more convenient for employees to contribute to the plan.

#### Cons

- Administrative burden, especially for companies with employees in multiple states.
- Employer generally must choose a single state plan to offer. This often restricts employees from choosing the plan that is most beneficial given their financial needs.
- Section 529 plans are widely available to individuals outside of the group setting. There are no additional tax advantages for an employer-sponsored plan.
- If contributions to a Section 529 plan are not used for college, a 10% penalty, as well as federal and state taxes, is levied on earnings.

### Notes

Section 529 allows both friends and family to contribute to an account on behalf of the designated beneficiary. Contributions may be subject to the gift tax exclusion or the generation skipping tax. If the gift exceeds the annual exclusion amount, it can be treated as if it were being made over a five-year period. Gifts may also be split between spouses. The law allowing federal income tax-free withdrawals is no longer set to expire on December 31, 2010. [Tax-free withdrawals are now considered permanent](#) with the passage of Section 1304 of the Pension Protection Act of 2006.

This Fact Sheet is designed to provide a general overview of the benefit program, service, or regulatory act it describes. The information included in this document is not a substitute for legal or professional opinion relative to a plan sponsor's particular fact pattern. Your ArlenGroup consultant can answer more specific questions relative to its application for your organization. A menu of additional topics is available online at: [www.arlengroup.com/facts](http://www.arlengroup.com/facts).