MFS Heritage Planning®
Helping Yourself. Helping Your Parents. Helping Your Children.®

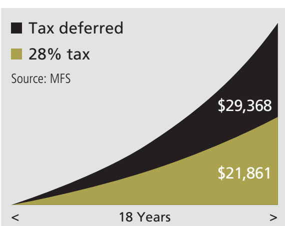
Courtesy of: Gerald Quigley, ChFC
Quigley Associates, Inc.1246 Rte 46 W, Parsippany, NJ 07054
973-257-7227
www.gtqfinancials.com

EDUCATION PLANNING

By the numbers

Less taxing, greater growth potential

An investment in a tax-deferred vehicle has the potential to accumulate more money over a long period of time



Annual return: 6%[2]
Initial investment: $10,000
Tax bracket: 28%

This example is for illustrative purposes only and is not intended to predict the returns of any investment choices.

Rates of returns will vary over time, particularly for long-term investments. There is no guarantee the selected rate of return can be achieved.

The underlying investments of your 529 plan may have fees and expenses that are not taken into account in this illustration. The performance of the investments will fluctuate with market conditions. If there are no earnings, the account will not grow.

[1] Source: College Board Trends in College Pricing 2014.

[2] Compounded monthly.

This material should be used as helpful hints only. Each person's situation is different. You should consult your investment professional or other relevant professional before making any decisions.

529 COLLEGE PLANNING

With the average cost of tuition and fees for four years at a private college having climbed to $134,260 ($40,406 in-state public), it is little wonder that many American families are concerned about their college savings.[1]

A 529 plan is an investment program with one basic purpose — providing families with an easy and effective means to save for future college costs. But 529 plans also have tax, retirement and estate planning implications that extend far beyond this basic purpose.

Most states have a 529 plan of some sort. Most of these programs are open to residents and nonresidents of the sponsoring state, so you can shop among them for the one that best meets your objectives.

Anyone can use a 529 plan

Do not assume you are not in a position to use a 529 plan. Unlike most other tax-advantaged programs, 529 plans are open to everyone, regardless of income level or the age of children or grandchildren. You do not even need to have children or grandchildren — you can establish an account for your favorite niece or, with some plans, yourself. Many 529 college savings plans, depending on the state, will allow you to make contributions of $300,000 or more into an account with no time limit on its use. Check the plan's disclosure materials for details.

Your financial advisor can show you how a 529 plan may fit into your financial picture and help you select the one that is right for your family. You can do the research on your own, but you will find that the investment options and program features vary considerably among the different programs, and the comparisons can become confusing.

Types of 529 plans

There are two general types of 529 plans: prepaid tuition plans and college savings plans. States may offer one type of plan or the other, and some states now offer both.

Key points

529 college plans provide several benefits, including

- tax-deferred earnings
- withdrawals that are free from federal tax if used for qualified expenses
- higher contribution limits than other college savings programs

529 plans allow you to

- roll over money from one state's 529 plan to another's
- change beneficiaries as long as the new beneficiary is in the same immediate family
- fund the education of a child, grandchild, niece, nephew, family friend or even yourself
- control account withdrawals even after the beneficiary reaches legal age

continued on page 2

continued from page 1

- Prepaid tuition plans are state- or institution-operated trusts offering contracts that promise to cover future tuition costs at designated public and private institutions. The price of the contract is pegged to current tuition levels, although some plans may provide discounts under certain circumstances. These programs may be restricted to in-state residents.

- College savings plans, on the other hand, are essentially state-sponsored investment portfolios, and many are open to residents as well as nonresidents. The account owner's contribution to the 529 plan may potentially grow in value over time to help keep up with the increasing price of higher education. As with any investment, returns depend on the market and on the portfolio's allocation between stocks and bonds. States set their own limits on the maximum value of a 529 savings plan account, based on the anticipated cost of future tuition. The state may adjust the limit in line with rising costs. Once the account has reached the limit of value set by the state (contributions and earnings), no further contributions are accepted unless the limit is raised.

Tax-advantaged investing

Earnings in 529 plans are tax deferred, and withdrawals are free from federal tax if used for qualified higher education expenses. If you withdraw money for something other than qualified higher education expenses, you will be subject to federal income tax on your earnings and may face a 10% federal tax penalty. There are exceptions to the penalty if the beneficiary dies, becomes disabled or receives a scholarship that reduces his or her need for college funds.

At just about any accredited post-secondary American institution, including graduate schools, qualified education expenses from a 529 savings plan include the cost of

- tuition
- fees
- books
- supplies

In addition, room and board expenses can qualify (subject to limits) if the student is attending college on at least a half-time basis.

As its name implies, a prepaid tuition plan covers only tuition and mandatory fees.

Estate planning features

With a 529 plan, you can help fund a college education and at the same time potentially reduce estate taxes — which makes it a great tool for many grandparents. Under current rules, you can gift up to $14,000 per year ($28,000 per married couple) per beneficiary without incurring federal gift-tax consequences. Or you may gift up to $70,000 ($140,000 per married couple) to each beneficiary. You do not incur federal gift taxes as long as no additional gifts are made to the beneficiary for four years after the year in which you make the one-time gift and the appropriate tax form is filed.[3]

Control of assets

For each prepaid tuition contract or savings plan account, there is an *owner* (generally the donor) and a *beneficiary*. You name a beneficiary when you set up an account; the individual you name does not have to be related to you.

With a 529 plan, you are the owner and retain all rights to the account, including the right to determine when withdrawals are taken and what they are used for. You can change the beneficiary to another relative (of the beneficiary) at any time, and you can even decide to revoke the account and obtain a refund.

A powerful opportunity

The following example demonstrates how powerful this opportunity can be. Grandma and Grandpa have significant wealth, including $1 million in bonds and cash. They want to reduce their estate tax exposure and like the idea of targeting some of their money for the college education of their seven young grandchildren. They decide to contribute a combined $120,000 into a 529 plan on behalf of each grandchild. The result is that Grandma and Grandpa have removed $840,000 ($120,000 x 7 grandchildren) from their estates in one day, without gift tax consequences and without incurring the costs associated with irrevocable trusts.[4] Further, the contributions are invested in a professionally managed investment account that may grow tax deferred without the burden of annual income taxes. And best of all, Grandma and Grandpa can always get the money back if they do not mind paying income tax plus a 10% penalty tax on their earnings.

[3] However, if the account owner elected to treat the gifts as having been made over a five-year period and dies before the end of the five-year period, the portion of the contribution allocable to the remaining years in the five-year period would be includable in computing the account owner's gross estate for federal estate tax purposes. Information based on 2015 tax rules, which are subject to change.

[4] This assumes Grandma and Grandpa live for four years after the year of the gift, do not make additional gifts during that time and file the appropriate tax forms.

continued on page 3

continued from page 2

Financial aid treatment

According to the US Department of Education, if the parent is the account owner, the assets in a 529 savings plan account are treated in the federal financial aid formula as assets of the parent. Since parental assets are generally assessed at a maximum 5.6% in determining aid eligibility (as compared with 20% for assets owned by the student), a 529 plan owned by the parents may help families qualify for more student aid.

Investment issues

Each state-sponsored 529 plan is free to design an investment approach that it feels will best accomplish the goal of saving for college. One condition imposed by tax law is that the account owner in the 529 plan may not have the unlimited ability to direct the investment of the account. For example, as the account owner you can reallocate your account balance among investment options only once per year or upon a change to the designated beneficiary of the account. Although this somewhat paternalistic provision is seen by some as a reason not to use 529 plans, the fact is that among the many 529 plans offered, there are a variety of investment approaches. Many plans have outsourced the investment and program management to large financial services companies that provide professional investment management to account owners.

And many plans now offer an "age-adjusted" investment program. Your account is invested primarily in equity funds while your child is young and shifts to more conservative fixed income funds as your child gets closer to college age. In addition to an age-adjusted program, some plans now include a menu of fixed-allocation investment portfolios, ranging from all-equity portfolios to 100% fixed income portfolios.

Important considerations

There are additional fees associated with 529 savings plans. Investments in 529s are generally municipal securities and involve investment risks. You should consider your financial needs, goals and risk tolerance prior to investing. Some states may limit your ability to roll over your 529 account from their plan to another state's plan.

Be sure to investigate the 529 plan in your own state and see if it offers any special benefits to state residents (such as a tax deduction for your contribution, matching grants or state financial aid preference). Depending on your state of residence and the state of residence of the beneficiary, an investment in a 529 plan may not afford you or your beneficiary state tax benefits.

Shop around and look at other 529 programs, both those sponsored by other states and those sponsored by institutions. Consult your financial advisor for help with understanding how 529 plans work and to compare the details of competing plans. The effort may be worth it if you are looking for a tax-advantaged way to save for future college expenses.

Resource

collegeboard.org

The MFS® 529 Savings Plan is a flexible college investing plan sponsored by the state of Oregon, acting by and through the Oregon 529 College Savings Board, and is part of the Oregon 529 College Savings Network. MFS Fund Distributors, Inc. is the Program Manager. MFS 529 Savings Plan accounts are considered municipal fund securities. Depending on your state of residence and the state of residence of the beneficiary, an investment in the MFS 529 Savings Plan may not afford you or your beneficiary state tax benefits or other benefits only available for investments in such state's qualified tuition program.

There is a $25 annual account fee associated with the MFS® 529 Savings Plan. This annual fee is waived for Oregon residents and for those accounts with assets of $25,000 or more. Investments in 529 plans involve investment risks. You should consider your financial needs, goals, and risk tolerance prior to investing. Clients investing in 529 savings plans should consult a tax advisor or other financial professional to ensure that they obtain the desired tax benefits. Tax benefits of investing in 529 plans depend on meeting distinct requirements such as whether an investor's home state offers state tax or other benefits only available in the home state's 529 college savings plan. Withdrawals of earnings not used to pay for qualified higher education expenses are subject to income tax and an additional 10% penalty. State taxes may also apply.

Before investing in the MFS 529 Savings Plan, consider the investment objectives, risks, charges, and expenses. For a prospectus or summary prospectus containing this and other information, as well as a Participant Agreement, Disclosure Statement and Expense Supplement, contact your investment professional or view online at mfs.com. Read them carefully.

Contact your financial advisor for more information or visit mfs.com.