Voya Investment Management

529 Plans: Major Opportunity for Saving, Minor Financial Aid Impact

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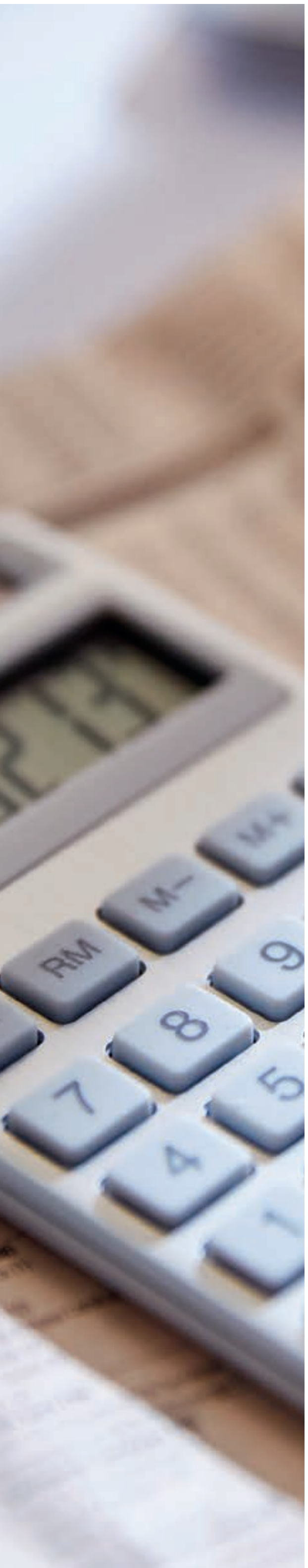
INVESTMENT MANAGEMENT



Pay It Smart

Your student worked hard to get into college. Paying for school is the first test families will have to take. Make sure everyone has done the work and considered the options and strategies available.

Payments for college come from three sources:

- Money supplied by the student and family through savings like 529s[1]
- Money awarded based on need or merit, such as grants and scholarships
- Loans taken by the student, parent or both

Given a choice between savings and loans, savings are by far the less expensive of the two. In addition to interest repaid, student debt may have a far reaching impact as loan repayments take the place of retirement savings or mortgage payments.

Saving for college through a 529 has considerable benefits, including:

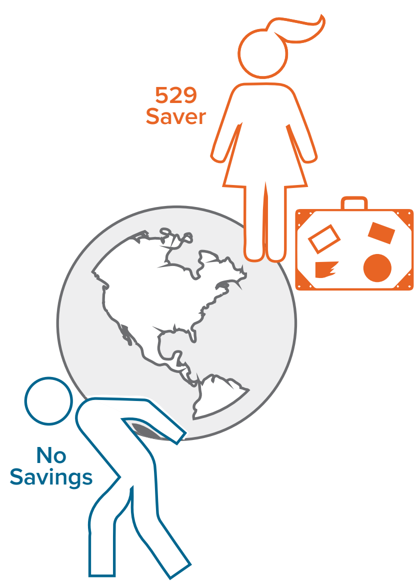
- Professional management
- Tax-free growth
- Preferable treatment in financial aid calculations

Navigating the financial aid process is essential

Little can be done to affect what financial aid is awarded based on merit — aside from dedication to school or athletics of course, but, competition is fierce and few receive significant merit-based aid. However, a quick study of the financial aid process can help both ensure students are positioning themselves for the maximum amount of need-based aid their family financial situation allows and use 529 savings to their fullest.

Together, savings and thoughtful planning can mean that both students and parents are able to pass the test of paying for college with flying colors.

Student loan debt can hold graduates back for years after college



[1]Throughout this paper, the terms “529 plan,” 529 account,” “529 savings”, “plan” and “529” are used as synonyms for 529 plans in general, or, as the IRS likes to called them, “Qualified Tuition Plans.”

Loans: The $1.7 Trillion Elephant in the Room

Loans make up roughly half of all college payments. In fact, total student debt in the United States has reached epic proportions at $1.8 trillion.[2]

Given their popularity, it is important to understand the full effect loans may have on long-term planning. College graduates with debt can fall seriously behind in saving for retirement, buying a first home or providing for a young family.

Loans can dramatically impact future savings

On a personal scale, the average graduate today leaves school with $37,853 in student loans,[3] though some tip the scale with over $100,000 in student loan debt, especially when graduate school is considered. These graduates will have to start paying that debt down with what will likely be the lowest paying job(s) of their career. If loan debt continues to grow at the same pace as increases in college costs — about 4% a year — babies born today may be in financial holes closer to $70,000 deep when they leave school in 22 years.

What is the real cost of paying down student debt over time?[4]

Consider two recent graduates: the 'Loan Re-payer' who leaves school with $37,000 of loan debt and the '529 Saver', fortunate enough to graduate debt free because of 529 savings. Each graduate pays $2,600 each year towards college debt or retirement savings, respectively.

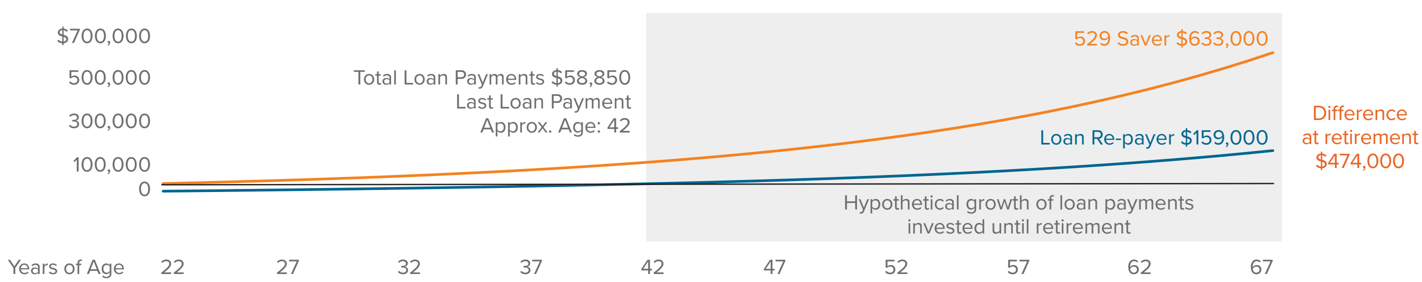
The Loan Re-payer's debt is paid off around age 42 — a debt taken on half a lifetime ago — leaving them with zero debt and zero savings to match. In stark contrast, the 529 Saver has been investing since college and at the same age has amassed over $100,000.

With the debt paid, Loan Re-payer begins investing for retirement, adding the same $2,600 into a retirement account each year and 529 Saver continues saving as they have all along. With their late start, Loan Repayer will have lost out on about $475,000 — nearly a half a million dollars — in potential savings and investment growth by retirement at around age 67.

Looked at another way, the long-term cost of repaying $37,000 in debt is $58,850,[4] assuming a 4.29% interest rate over 20 years post-college. In contrast, the amount required to amass $37,000 in college savings prior to the student attending college in a 529 plan is just $25,100 over 18 years assuming a 6% rate of return, a difference of $33,750. Add on the tax benefits from investing in a 529 account and you can see the savings benefits.

Saving Early Compared to Paying Off College Debt[4]

Annual Savings/Payments: $2,600



[2] U.S. Federal Reserve September 2024 Consumer Credit Report G.19, Released November 07 2024.
[3] "Average Student Loan Debt", Education Data Initiative, August 2024.
[4] Source: Voya Investment Management. Assumes a loan interest rate of 4.29% annually and investment returns of 6% annually. Actual rates of return will fluctuate and principal amount invested can be lost. This example is for illustrative purposes only and does not represent any fees or expenses that would be paid by a 529 plan participant.

Understanding Financial Aid

While loans may be inevitable for some, many diligent savers can greatly minimize or even completely eliminate the need to take on debt to pay for college. Once those savings are accumulated, understanding how best to pay for college and best utilize 529 savings starts with a basic overview of how financial aid is calculated, beginning with important terms to understand.

Free Application for Federal Student Aid (FAFSA)

Families applying for federal aid must complete FAFSA. In addition to determining federal aid, FAFSA is used by many public and private universities to calculate their aid awards.

Cost of Attendance (COA)

The COA reflects the cost to attend a specific college for one year including tuition, room, board and related expenses.[5]

Student Aid Index (SAI)

The SAI is the amount of tuition and other costs a family is expected to afford each year as determined by their FAFSA submission.

- The SAI is not dependent on a specific school's COA and may be more or less than a school's "sticker price"
- The SAI calculation does not always reflect a family's actual ability to pay. While FAFSA's formula attempts to fairly assess financial situations, some families find the calculated SAI beyond what they can afford out-of-pocket and through savings
- For families seeking financial aid, the goal is to minimize the SAI

Financial Need

Financial need is the difference between the amount a college costs (COA) and what families are calculated to be able to pay by FAFSA's formula (SAI). In a perfect world, financial aid awarded would equal financial need. In reality, aid awarded often falls short. Families use their savings or take out loans to fill the gap between what the college determines they can pay and what they can actually afford.

College Scholarship Service Profile (PROFILE)

The PROFILE application is used, in addition to FAFSA, to award non-federal institutional aid.

PROFILE generally digs deeper into family finances — including, but not limited to, home equity and 529 accounts that list the student as a beneficiary but are not owned by parents or guardians.

In addition, each school has the opportunity to customize how they use this information. For questions on how your 529 savings will be counted on PROFILE, it is best to contact the individual school's financial aid office.

[5]Disclaimer: Because FAFSA is more commonly known and PROFILE calculations are dependent on the school using PROFILE, this paper will focus on FAFSA calculations only.

How Are Income and Assets Considered in the SAI Calculation?

A deeper dive into the way student aid index is calculated highlights the pros and cons of the various ways to pay for college, including how some money sources are better at achieving the overall goal of keeping SAI lower. FAFSA differentiates between two broad categories of money sources in particular: income and assets.

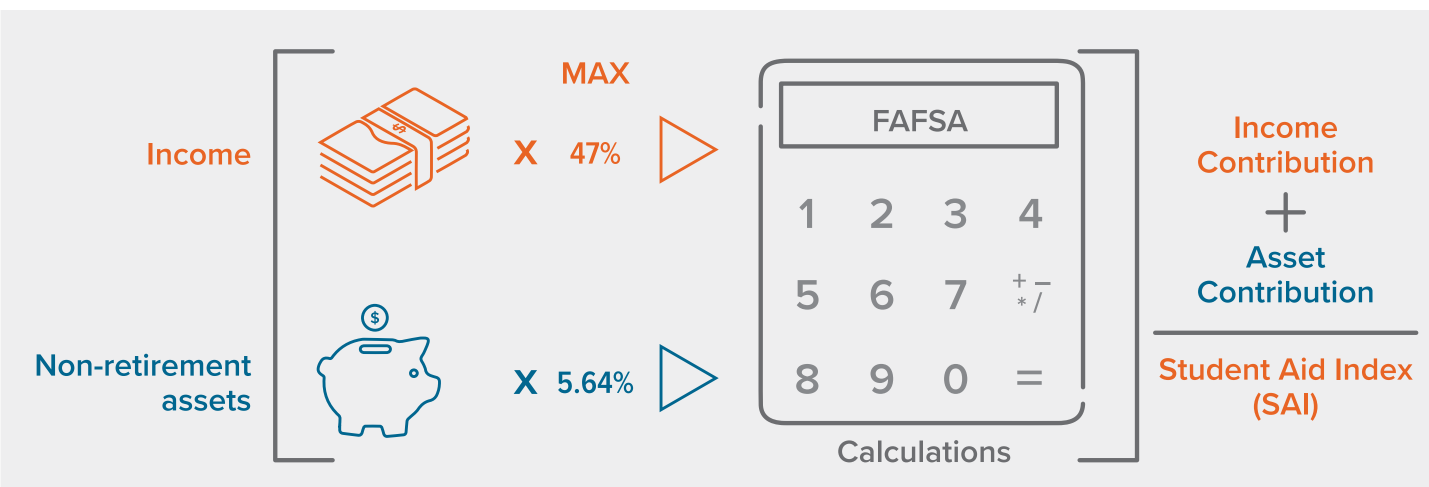
- **Income**
  Income is money earned and includes familiar sources such as wages, salaries, tips and taxable earnings on investments that have grown in value.[6] Keep in mind when it comes to FAFSA, they have a *two year look-back* when considering income; meaning, they will look two years in the past at both student and parent income when making a calculation for aid.

- **Assets**
  Assets can include both property and savings. Around the first $20,000 of parental assets won't be counted in the SAI. In addition, certain assets are ignored, including retirement accounts (401ks, IRAs, pensions and annuities), real-estate and non-commercial personal property (planes, boats and cars).[7] Excluded assets, coincidently or not, are often poorly suited to fund higher education. Withdrawals from retirement accounts can seriously impact the growth of long-term savings. Additionally, distributions from accounts like IRAs and 401(k)s are likely to be taxed and hit with an additional 10% IRS penalty.

FAFSA's formula weighs income and assets differently

Assets are generally weighted, or considered, less heavily than income in FAFSA's formula with respect to what is added to the SAI. Take note of the different treatment of assets and income in the basic FAFSA formula shown below. While a maximum of up to 47% of income is counted towards SAI, only a maximum of up to 5.64% of the value of assets is added.[8] For many families, the maximum amount of income and assets counted toward the SAI will likely be much lower and the bulk of contributions will come from income while assets play just a small part. Therefore, saving as much as possible will help bridge the gap between SAI and aid awarded. However, just as importantly, choices in the types of savings accounts have a significant impact on FAFSA's calculation. 529 savings can be instrumental in minimizing the effect of SAI.

Savings and income are not treated equally in determining SAI[8]



This chart is for illustrative purposes only.
Additional information on specific allowances, as well as full lists of included and excluded assets and income, can be found at fafsa.ed.gov.

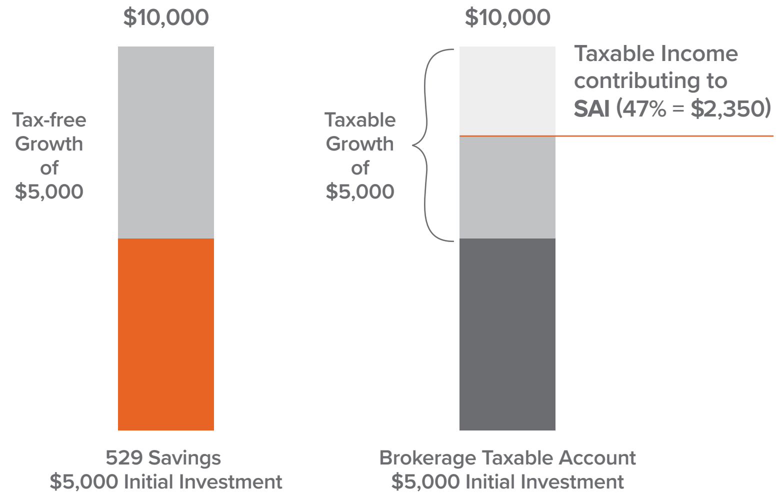
[6] Some sources of income are excluded from FAFSA's formula.
[7] A full list of included and excluded assets is also available at fafsa.ed.gov.
[8] The values by which income and assets are counted will fall within a range based on a number of factors. The maximum values are shown here.

Saving with a 529 Adds Up

The treatment of 529 savings when determining financial aid is what really makes these plans stand out, especially in comparison to other common savings choices such as a standard brokerage account.

Earnings from 529 accounts not only are withdrawn tax free, but those earnings are also not reported as income, and as a result, that portion will have no effect on SAI in the years after they are withdrawn.[9] Any withdrawals from traditional savings methods, however, do not enjoy that same treatment. In addition to being taxed, earnings from traditional savings are also counted as income, meaning that up to 47% of those earnings would be counted towards SAI when FAFSA calculations are made the two years following the withdrawal. As noted, both 529s and traditional savings accounts are considered assets. Their balances will count up to 5.64%, but earnings withdrawn from 529s are excluded from FAFSA's income calculation.

529 Savings Can Help Reduce SAI



Source: Voya Investment Management. This hypothetical example is for illustrative purposes only.

For example, imagine two $10,000 savings accounts, one in a 529 and one in a taxable brokerage account. Each account is made up of $5,000 in contributions and $5,000 of investment growth. When the full amount is used to pay for college, the taxable account owner will owe taxes on the $5,000 of growth and 47% – $2,350 – is added to the student aid index. The 529 account owner on the other hand will have $10,000 free and clear[9] to pay for school with no taxes owed and will not have to add any income to their SAI calculation.[10]

Putting it another way:
529s have great advantages over taxable accounts when withdrawing funds for college.

1. Earnings in taxable accounts are reported as income.
2. Income is factored into FAFSA. Additional income from investment earnings could mean additional expected contributions.

[9] So long as the withdrawal is applied towards qualified expenses in compliance with IRS rules. Also, while state tax rules generally follow federal tax laws on 529 distributions, be aware that rules surrounding 529 distributions may differ in some states. Talk to your tax advisor about how the rules may apply in your state.
[10] Note: At the time FAFSA is filed, both accounts will have 5.64% of their balance added to the SAI; in this example, it would be $564.

Make the Most of Your 529 Savings

While 529 savings do add to SAI, there are strategies to minimize the impact to aid awarded. Lower SAI and stretch 529 savings as much as possible through advanced planning guided by quick review of a few important rules of 529 ownership and distribution.

Account ownership matters

The exact "weights," or percentages of money sources, assigned to assets and income are detailed below. While dependent on a family's financial situation, many middle income families will easily "max out" and have the heaviest weights applied. Because of this, all examples provided assume the maximum weight when making calculations.

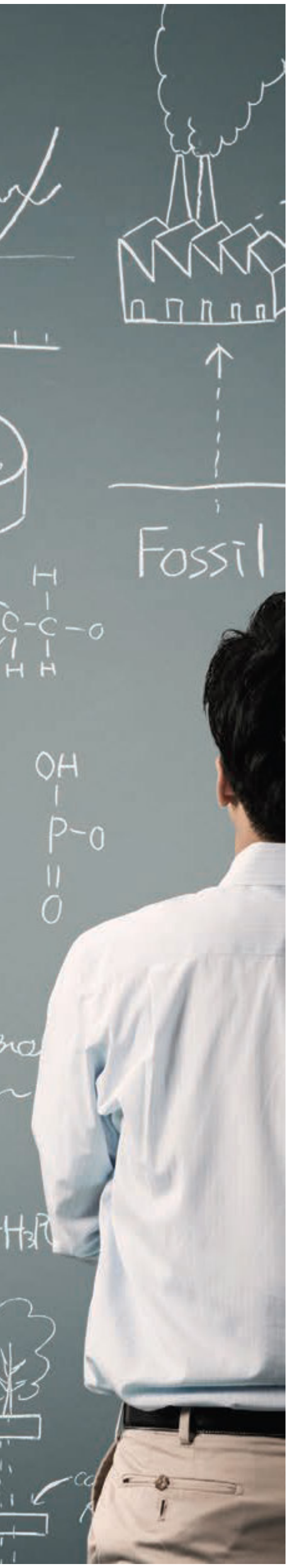
529 Ownership and Income Effects On Financial Aid

529 Ownership in SAI	Treatment of Asset Ownership in SAI	Treatment of 529 Savings Balances in SAI	Treatment of Income in SAI	Treatment of Qualified Distributions in SAI	Treatment of Non-Qualified Distributions in SAI
Independent Student	Student	20% of balance added to SAI	50% of Income added to SAI	Ignored/ Not reported as income	Added to the income of the recipient
Dependent Student	Parent or Guardian	2.64–5.64% of balance added to SAI	22–47% of income added to SAI		
Custodial Parents or Guardians					
UGMA/ UTMA 529[11]					
Non-Custodial Parents or Grandparents	Distributions from grandparent or non-custodial parent accounts now are ignored/not reported as income to the beneficiary[12]				
Other Non-Relative					
Trust-owned 529					

Here are more details on FAFSA calculations and account ownership

- Income is weighted 7–8 times more heavily than assets
  - Student income and assets are weighted more heavily than parents'
  - Student owned assets are assessed at a rate of 20% and income at a rate of 50%
- Assets owned by parents, including 529 assets, are assessed between 2.64–5.64%
- The earnings portion of non-qualified distributions is added to the income of the person who receives the check

[11] With the Free Application for Federal Student Aid, FAFSA, assets in an UGMA/UTMA and outside of a 529 are considered the child's assets and assessed at 20%.
[12] Distributions from accounts not owned by the student or parent/guardian are no longer considered for purposes of the SAI calculation effective with the FAFSA form filed for the 2024-2025 school year. Because the FAFSA is based on tax information from two years prior, distributions taken beginning in 2022 will not effect SAI or needs-based financial aid.



529 Withdrawal Rules and Strategies to Keep in Mind

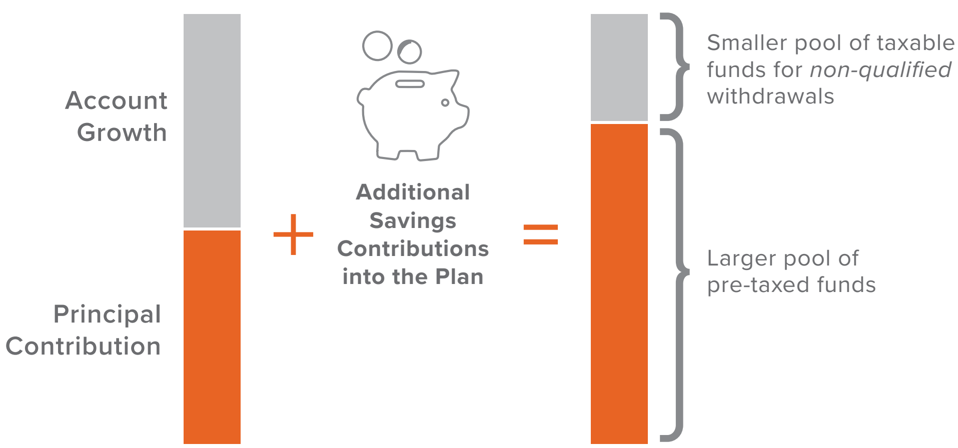
Along with attention to ownership and income rules, consideration of how payments are withdrawn from 529s may also help to minimize SAI.

Distributions from 529 accounts must occur in the same calendar year college expenses are incurred. If a distribution is taken in the following calendar year, or is taken for more than the cost of college expenses, the money distributed in the next year or above college costs will be considered non-qualified. Earnings from the distribution will be added to the taxable income of the payee, assessed a 10% federal tax penalty and may incur a state tax penalty.[13]

Three important reasons to consider withdrawing from 529 savings first:

It generally makes sense to withdraw the full amount of any qualified college expenses every year. This is true even if the 529 account balance will not last all four years. If it is possible to pay some of the costs out of pocket it may seem preferable to stretch the 529 balance; however, there are a number of benefits to withdrawing the maximum amount.

1. Savings may be better used as additional contributions into the 529. State income tax deductions and credits are available in many states and any earnings will grow tax free. The contributions will also increase the tax basis, or the amount that has already been taxed in the account.
2. Increasing the tax basis may come in handy if the funds are ever needed as *non-qualified* distributions. Contributions and earnings are withdrawn proportionately. This means if less of the overall balance of the account is made up of earnings, then non-qualified distributions will have a smaller proportion of earnings and, as a result, will have a smaller amount to be taxed and penalized.
3. Removing funds from a 529 account may lead to additional aid eligibility; however, the effect may be minimal. If the assets are in savings, refer to Reason 1.



For illustrative purposes only. Example based on 18-year contributions to 529 Plan.

Tip:

Most 529 plans allow ownership changes, but not all. Check with your 529 provider or a tax advisor before making decisions that may eventualy require an ownership change.[14]

[13] Each state is able to set their own rules on 529 distributions. It is important to check your state's policy before making any withdrawal decisions.
[14] A small number of 529 programs report ownership changes as non-qualified distributions. Contact your tax advisor to discuss any potential tax implications.

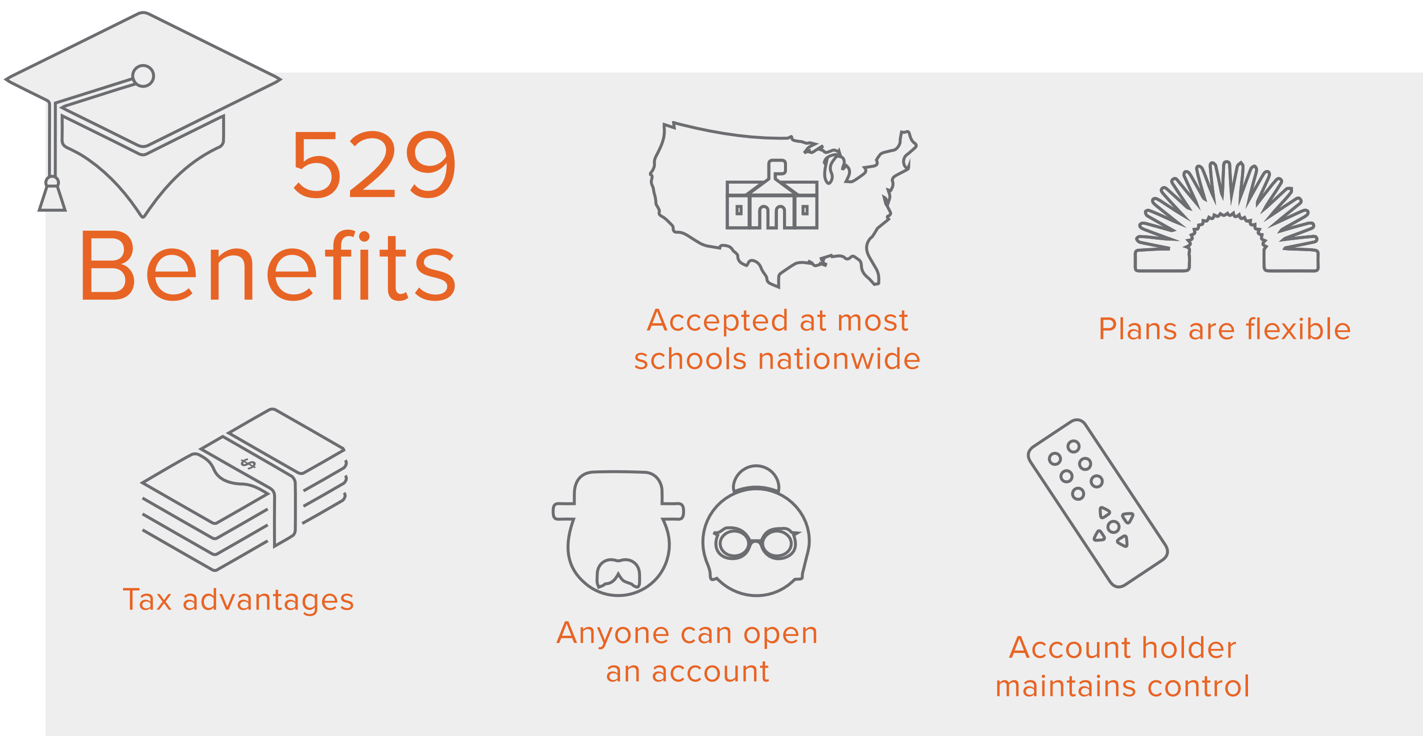
The New FAFSA Rule Change for Grandparents

Distributions taken from grandparent-owned accounts will no longer be reported as student income and as a result do not effect SAI starting in 2022. This rule change gives Grandparents more flexibility when choosing how they want to support their grandchild's education. If a doting Grandma pays $10,000 out of a 529 she owns towards tuition freshman year, her darling grandchild turned college scholar will not be expected to pay any additional amount. Put in other words, distributions from grandparent accounts no longer raise a student's Student Aid Index.

1. **Accelerated Gifting**
   Grandparents who haven't given in the past due to FAFSA rules can now take advantage of Accelerated Gifting and contribute up to $190,000 dollars (when filing jointly) or $95,000 (single) per-grandchild per-year to their own 529 accounts for up to 5 years. These gifts reduce the size of their taxable estate by the amount of the donation. If a couple has 5 grandchildren, they could feasibly reduce the size of their taxable estate by $950,000 in a single tax year.

2. **Multiple Grandchildren Savings**
   Grandparents, (when filing jointly) can give up to $38,000 or $19,000 (single) per-year per-child to their own 529 accounts before incurring gift tax. This will reduce the size of Grandma's taxable estate while funding her granddaughter's education! With 5 grandchildren, a couple could reduce their taxable estate by $190,000 per year without accelerated gifting.

3. **Viewed Attractively for Financial Aid**
   Under the new rule, grandparent owned 529s will be viewed attractively for financial aid purposes. This means that grandparents can own their own 529 accounts and distribute funds to their grandchildren directly from those accounts without raising their grandchild's cost of education.



Extra Credit

TIP: Financial aid packages are negotiable.

When a college accepts a student it will assemble a financial aid package that it considers appropriate. While the aid package a school offers may not fully cover the COA — it is under no obligation to do so — you are not obliged to take the first offer that comes your way. Talk to the school's financial aid office. Many colleges will negotiate tuition prices especially if the student brings something unique to the table or shows passion for the school. Students can also leverage another college's financial aid award to get a more favorable package. Most importantly, don't delegate these negotiations to the parents. To be taken seriously, the student must write the letters, make the calls and meet the aid officers.

TIP: It takes a village . . .

A little goes a long way. Most 529 plans allow anyone to contribute — even if they are not the account owners. Birthdays, holidays, graduations, and other special events are great opportunities to ask family and friends to consider making a gift into a child's 529 account. It may not be the latest toy, but it will last longer. Over 18 years those small contributions can make a significant difference in a student's life.

TIP: Four options for scholarship recipients

While many are concerned that their 529 savings will be "wasted" if the student receives a scholarship, this is far from the case. Scholarship recipients still have many options for using 529 balances.

1. Use 529 funds for costs often not covered by scholarships, such as room, board, books, computers, software and supplies.
2. Change the beneficiary of the 529 account to someone else in the family.
3. Hold onto the funds for possible graduate school.
4. Withdraw up to the amount equal to the scholarship, but not exceeding qualified college-related expenses, without penalty in the year the scholarship is received. Taxes are due on earnings, but the account will have still received the benefit of tax-deferred growth.

Again, it is helpful to note that the payee of the check for a non-qualified distribution is the person responsible for paying the tax. If the payee is a student or recent graduate, he or she likely will be in one of the lowest tax brackets.

TIP: Merit-based aid

For financial aid awarded, little can be done to affect what is received based on merit — aside from dedication to school or athletics. Competition is fierce and very few receive significant merit based aid.

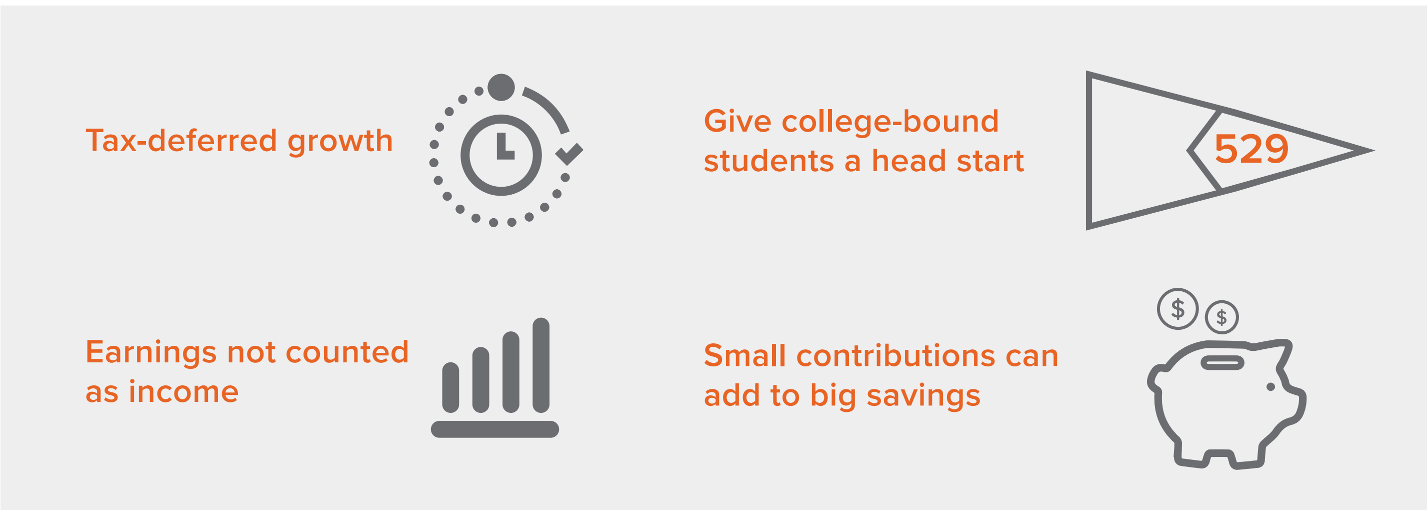
Putting It All Together

College costs are growing and so is college loan debt. Around seventy percent of families take out loans to pay for college while less than a third are proactively saving in a 529. While there are a number of college funding and savings strategies, few fit as well for so many and in such a variety of financial situations as a 529 account.

529s allow students and parents to avoid the high cost of borrowing and the missed opportunity of saving those loan repayments for retirement. Along with saving, consideration of the 'ins and outs' of FAFSA can lead to the best results in seeking financial aid.

Starting a 529 savings account at birth and steadily contributing throughout a child's formative years and on through high school is one of the best ways to help them stay on track to graduate with the least possible debt. While we can't guarantee that your children won't call at 3 a.m. stressing out about their finals, at least their post-college financial lives will be less of a worry.

529s are the standout choice for college savings



For more information:

Voya has a variety of materials to help you understand the many benefits 529s provide. For more detailed information and resources on 529 plans and how Voya Investment Management can help make college possible, please review Voya's "Guide to 529 Accounts" and "Maximizing the Value of 529 Accounts," available at investments.voya.com.[15]

Visit the College Board's website at www.collegeboard.org

Information on FAFSA can be found at fafsa.ed.gov

[15] Full address: https://529plans.investments.voya.com/Wisconsin/Lit/index.htm

Disclaimers

Investments in 529 plans are not guaranteed or insured and are subject to investment risks, including the loss of the principal amount invested.

The tax information contained herein is not intended to be used as tax-planning advice, nor can it be used by any taxpayer for the purpose of avoiding tax penalties. Taxpayers should seek advice based on their own particular circumstances from an independent tax advisor.

An investor's home state may offer state tax or other benefits that are only available for investments in that state's qualified tuition program. Please consider this before investing.

Earnings component of non-qualified withdrawals may be subject to federal and state taxes and the additional federal 10% tax.

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Investments in 529 Plans are subject to certain charges, which will reduce the value of your client's Account as they are incurred. Please see the Program Description for details of charges or fees that apply to your client's 529 Plan.

Investments in 529 Plans are subject to investment risks, including the loss of the principal amount invested, and may not be appropriate for all investors.

Investors should carefully consider the investment objectives, risks and charges and expenses of 529 plans and their underlying funds before investing. This and other information can be found in the Program Description or other disclosure documents of the 529 Plan. You may obtain this information from the programs' administrators or your financial professional. Please read this information carefully before investing or sending money.

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