Planning for college: Why save?

Pursuing a college education is one of the wisest decisions an individual can make. There's a seemingly endless list of benefits to earning a college degree, not the least of which are the financial and personal rewards. And best of all, with a little planning, funding a college education may be achievable. The sooner you take that first step and set up a college saving plan, the closer you'll be to giving your child a gift that will last a lifetime.

How will I pay for college?

Most people pay for college through a combination of sources that include:

- Current income—most colleges have monthly payment plans
- Loans—federal and private loan programs for students and parents
- Savings and Investments
- Financial Aid

Families are encouraged to apply for financial aid from a variety of sources, including the federal government, state government, colleges and universities, and private sources. Financial aid is awarded based on financial need and merit. Many colleges offer both need-based and merit-based aid and a student may receive a combination of both.

Need-based financial aid is based on a family's financial need and may include grants, loans, and/or work study. When a family applies for financial aid, an "expected family contribution (EFC)" is calculated. This is an estimate that is determined through the financial aid process of how much the family is expected to contribute toward college costs. When a family's EFC is not enough to meet total college costs, the family may be eligible for need-based financial aid.

Merit-based aid is generally awarded in recognition of student achievements (academic, athletic, extracurricular) and is usually given in the form of scholarships.

Since most families pay for college from a combination of sources, maximizing savings can help reduce the burden on current income when the student is in college and may reduce or eliminate the need to borrow money.

ACTION PLAN

- Estimate how much college will cost
- Learn more about how college financing works
- Determine which college savings vehicle best meets your needs

Which college savings plan is best for you?

There are several options available when saving for a child's college education. As the following table shows, each option offers its own features, tax benefits, and implications for federal financial aid.

Comparing college savings options

	529 Plan	Fidelity Custodial Account UGMA/UTMA	Coverdell Education Savings Account	Taxable Account	Prepaid Tuition Program
Earnings Grow Tax Deferred	✓	Part of investment earnings may be exempt from federal income taxes	✓	To the extent gains are unrealized, they effectively provide the benefit of tax deferral	✓
Ability to Change Beneficiaries	✓[1]	Not permitted. Contributions are irrevocable gifts to the minor.	✓	N/A	✓[1]
Account Holder Maintains Control over Distribution of Assets	✓	Distributions must be used for the benefit of the minor	✓	✓	✓
No Income Restrictions	✓	✓		✓	✓
No Age Limit for Contributions	✓	Effectively limited by termination of custodianship as assets must be transferred to beneficiary at that time (usually age 18 or 21)	Beneficiary must be under age 18. No age limit for special needs beneficiary	✓	✓
Ability to Accelerate Gifting $65K/$130K	✓[2]	Each donor can currently contribute up to $13,000/year without federal gift-tax impact	$2,000 limit per designated beneficiary. Reverts to $500 in 2013 unless present law is extended.	No limit on contributions	✓[3]
Impact of Assets on Financial Aid	Low	High	Low	Low if considered assets of the parent	Low

[1]See Fact Kit for details on changing beneficiaries. Participants can transfer account to benefit an eligible member of the original beneficiary's family, tax free and penalty free.

[2]In order for an accelerated transfer to a 529 plan (for a given beneficiary) of $65,000 (or $130,000 combined for spouses who gift split) to result in no federal transfer tax and no use of any portion of the applicable federal transfer tax exemption and/or credit amounts, no further annual exclusion gifts and/or generation-skipping transfers to the same beneficiary may be made over the five-year period, and the transfer must be reported as a series of five equal annual transfers on Form 709, United States Gift (and Generation-Skipping Transfer) Tax Return. If the donor dies within the five-year period, a portion of the transferred amount will be included in the donor's estate for estate tax purposes.

[3]Customers should check in with their prepaid administrators for more details.

529 college savings plans offer tax advantages

The 529 college savings plan is one of the best ways to save for college. These flexible accounts are designed specifically for college savings. Residents of any state can invest in most other states' 529 plan. The money in a 529 account can be used to pay for qualified higher education expenses at most accredited colleges, universities, and vocational-technical schools nationwide, as well as at eligible foreign institutions.

529 plans offer a variety of advantages:

- **Free from federal income tax—** Qualified withdrawals from your 529 college savings plan are free from federal income tax. You will not pay federal income taxes on any earnings when the money is used for qualified higher education expenses such as tuition, room and board, mandatory fees, books, and computers and related equipment if the computer is required by the school.
- **High contribution limits—** There are no income restrictions for participating, and contribution limits for each beneficiary are usually over $300,000. Each state sets the maximum contribution limit for its plan.
- **Flexibility—** You have the flexibility to reallocate your contributions and any earnings among 529 savings plan investment options once a calendar year for a given beneficiary, and upon a change in the designated beneficiary of the account.
- **Easy to set up—** Most 529 savings plan accounts are easy to establish and maintain. Plans vary, but typically the initial investment is as little as $15 if you choose to set up a regular investment plan, such as direct deposit from a bank account.
- **Potential gift and estate planning benefits*—** You can contribute up to $65,000 ($130,000 per married couple) per beneficiary in a single year without incurring a federal gift tax. Once assets are in the account, they are generally considered to be out of the donor's estate.

Five tips for choosing a college savings plan.

College savings plans differ significantly in features and benefits. However, there are some key factors to consider when choosing a college savings plan:

1 **Take advantage of tax benefits.** The tax benefits offered by college savings vehicles can greatly affect how much you accumulate for your child's college education. Investigate whether your state offers a plan with alternate tax advantages for its residents.

2 **Know how flexible and accessible your assets are.** Ownership, control of assets, and account flexibility are important factors that should weigh into your decision-making process.

3 **Understand the financial aid implications.** Financial aid treatment of various assets has changed greatly over the past several years. Make sure you're up to date on this important information.

4 **Determine who should make the investment choices.** Some 529 plans offer portfolios that are keyed to the age of the beneficiary, mirror a specific index (e.g., S&P 500® Index), or invest in actively managed mutual funds.

5 **Consider income restrictions, contribution limits, and other factors.** High contribution limits allow you to save greater amounts toward college expenses. This may influence your plan selection.

NEXT STEPS

- Set a goal
- Start early: the younger the better
- Contribute regularly: consistency can be the key†

*In order for an accelerated transfer to a 529 plan (for a given beneficiary) of $65,000 (or $130,000 combined for spouses who gift split) to result in no federal transfer tax and no use of any portion of the applicable federal transfer tax exemption and/or credit amounts, no further annual exclusion gifts and/or generation-skipping transfers to the same beneficiary may be made over the five-year period, and the transfer must be reported as a series of five equal annual transfers on Form 709, United States Gift (and Generation-Skipping Transfer) Tax Return. If the donor dies within the five-year period, a portion of the transferred amount will be included in the donor's estate for estate tax purposes.

†Periodic investment plans do not guarantee a profit or protect against loss in declining markets.

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If you or the designated beneficiary is not a resident of the state sponsoring the 529 college savings plan, you may want to consider, before investing, whether your or the designated beneficiary's home state offers its residents a plan with alternate state tax advantages or other benefits.

Units of the portfolios are municipal securities and may be subject to market volatility and fluctuation.

Please carefully consider the Plan's investment objectives, risks, charges, and expenses before investing. For this and other information on any 529 college savings plan managed by Fidelity, call or write to Fidelity for a free Fact Kit, or view one online. Read it carefully before you invest or send money.

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