SCHOLAR'S EDGE®
529

Introduction to 529 plans

Investment management by:

Principal®

Contents

A 529 plan is a tax-advantaged investment vehicle within the United States designed to save for future higher education expenses for a specified beneficiary.

Challenges for education savers

Investments

- Need to outperform college inflation
- Can be a limited time horizon depending upon withdrawal timeline
- Cost set by educational institutions so not negotiable

Risk versus return

- Need an investment return that equals or exceeds increases in the Higher Education Price Index (HEPI)
- Help minimize the savings shortfall by avoiding an underperforming investment portfolio

Features of a 529 plan

Tax benefits

Earnings in the 529 Plan grow tax-deferred.

If withdrawn to fund qualified higher education expenses[1] of the beneficiary, withdrawals from 529 Plans are exempt from federal taxes and may also be free from state taxes.

Gifting and estate planning[2]

Contributions of up to $15,000 per beneficiary annually ($30,000 filing jointly) are exempt from Federal gift tax.

A one -time contribution of $75,000 ($150,000 filing jointly) can be treated as being made over 5 years and therefore not subject to Federal gift tax liability.

Withdrawals[2]

529 Plan withdrawals can be made tax-free to fund qualified higher education expenses at Eligible institutions around the country.

Qualified expenses are not subject to an annual 529 Plan distribution limit

529 plans can be used for K-12 enrollment ($10,000 limit).[3]

Availability

Anyone can open, regardless of income.

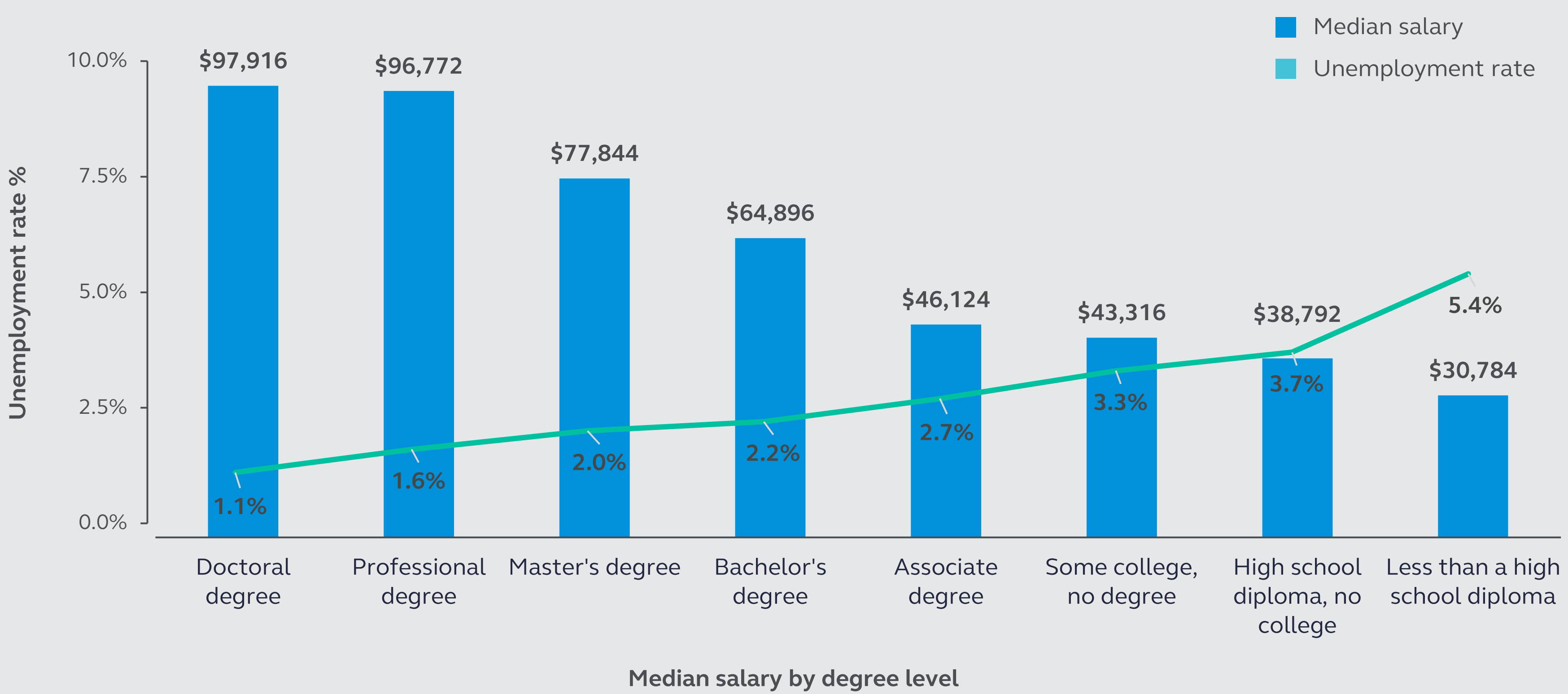
[1] Qualified higher education expenses are those are that are incurred at eligible institutions such as four-year colleges and universities, vocational schools, community colleges, and some foreign institutions and include tuition and fees, books, supplies and equipment and room and board. Beginning in 2018, withdrawals of up to $10,000 per year from 529 Plans can also receive favorable tax treatment if used for tuition expenses incurred for K–12 education. Please consult with your tax professional for more information about your home state's tax rules.

[2] Principal is not in the business of providing tax advice. Any prospective investor should seek tax advice based on the taxpayer's particular circumstances from an independent tax advisor.

[3] Tax treatment of qualified withdrawals may differ by state and can change based on state legislation. Using a 529 plan to pay for K-12 tuition should be carefully considered as there may not be adequate time to accumulate sufficient savings before the start of the beneficiary's enrollment in an institution of higher education. Please consider consulting a financial or tax professional to determine whether or not a 529 plan is the best strategy for your individual situation and for questions on state and federal taxes. Earnings on non-qualified withdrawals will be subject to federal taxes (including a 10% federal penalty tax in most circumstances) as well as applicable state and local income taxes.

The benefits of education

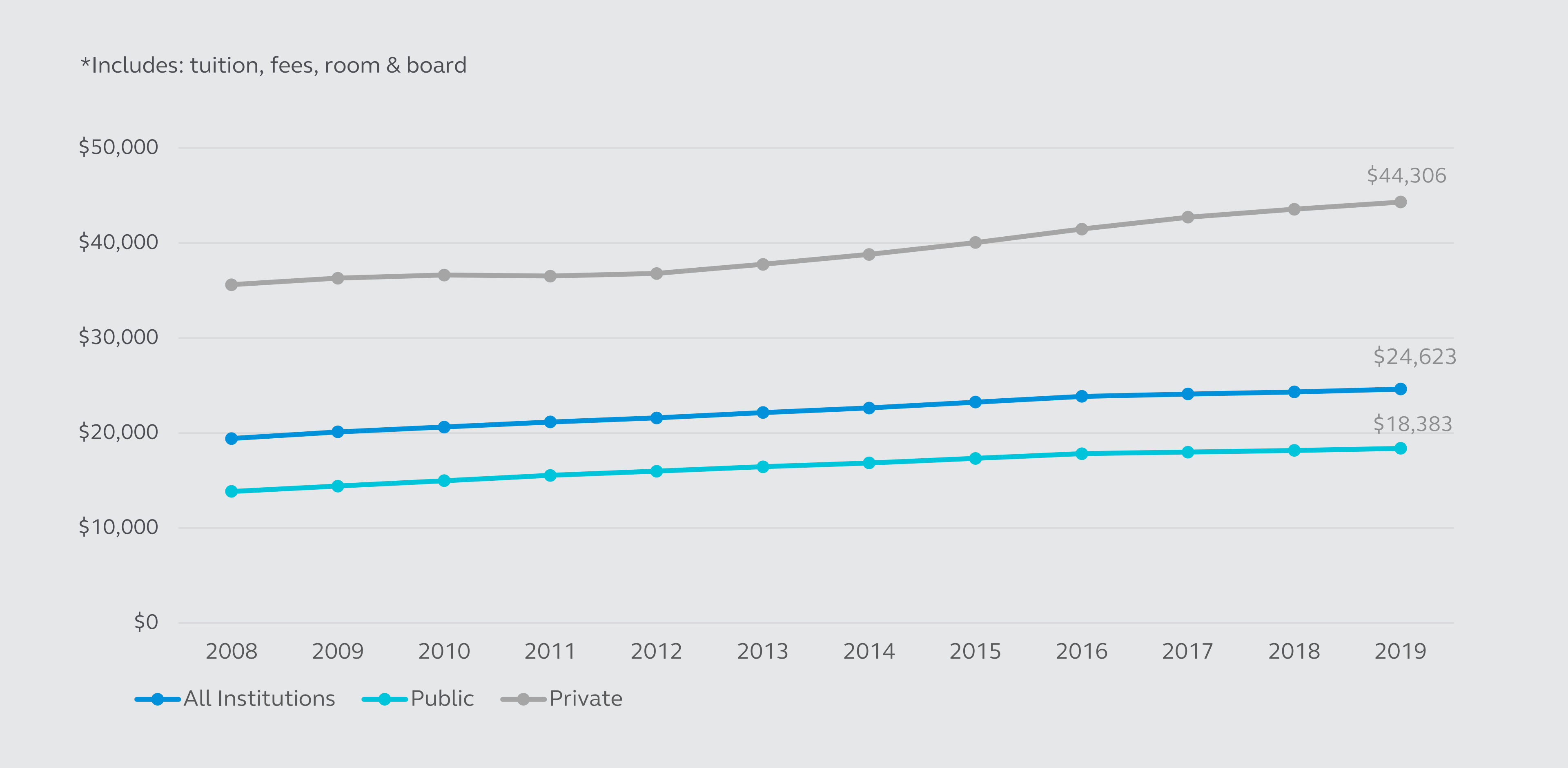
Studies show the higher the level of education achieved, the higher the median salary earned and lower the unemployment rate.



Source: U.S. Bureau of Labor Statistics, Current Population Survey, 2019. Salary reported as median weekly earnings, data was annualized.

College costs continue to rise

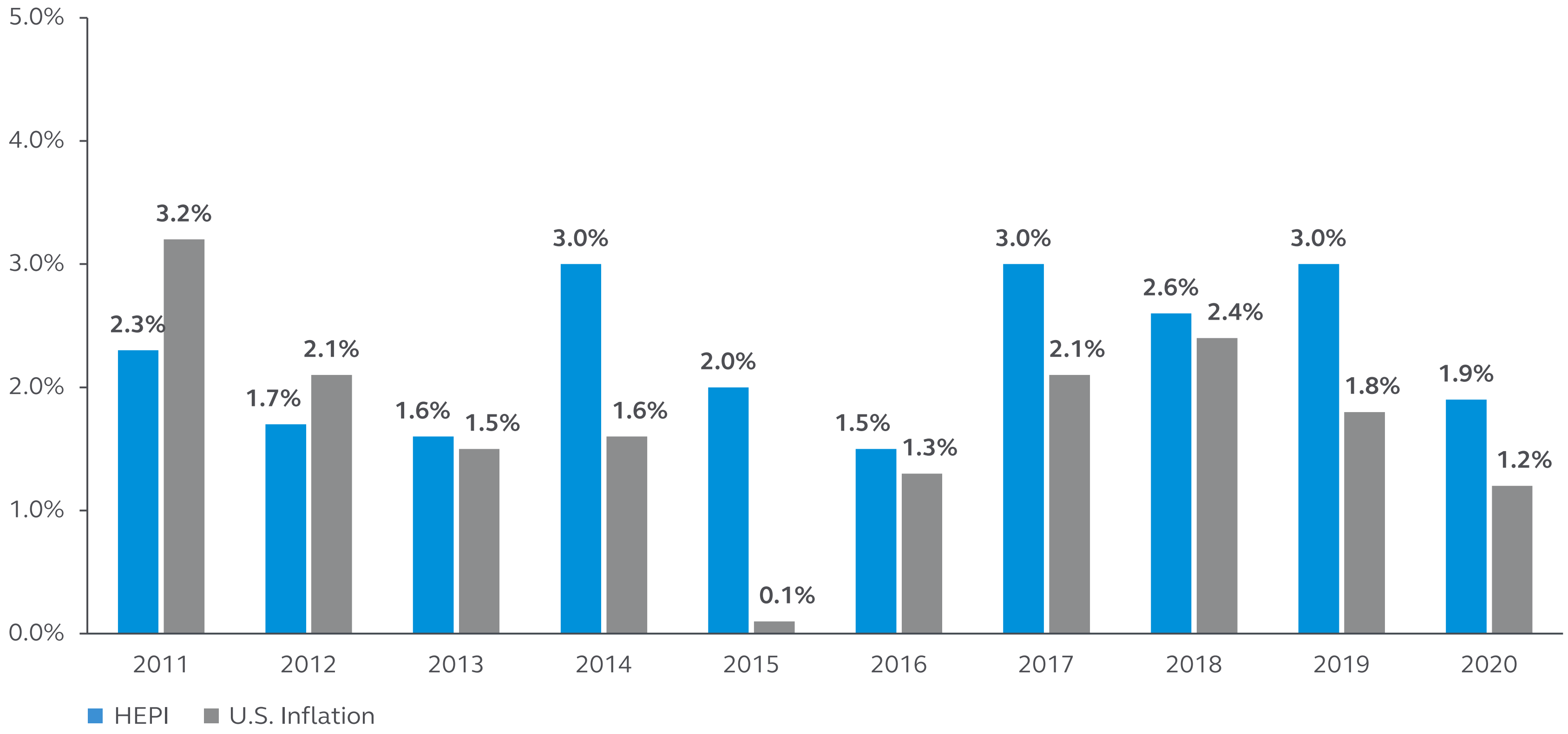
Average undergraduate college cost* (past 10 years): public vs. private



Source: U.S. Department of Education, National Center for Education Statistics.(2020). Digest of Statistics, 2019.
Note: Constant dollars based on the Consumer Price Index, prepared by the Bureau of Labor Statistics, U.S. Department of Labor, adjusted to an academic-year basis. For public institutions, in-state tuition and required fees are used.

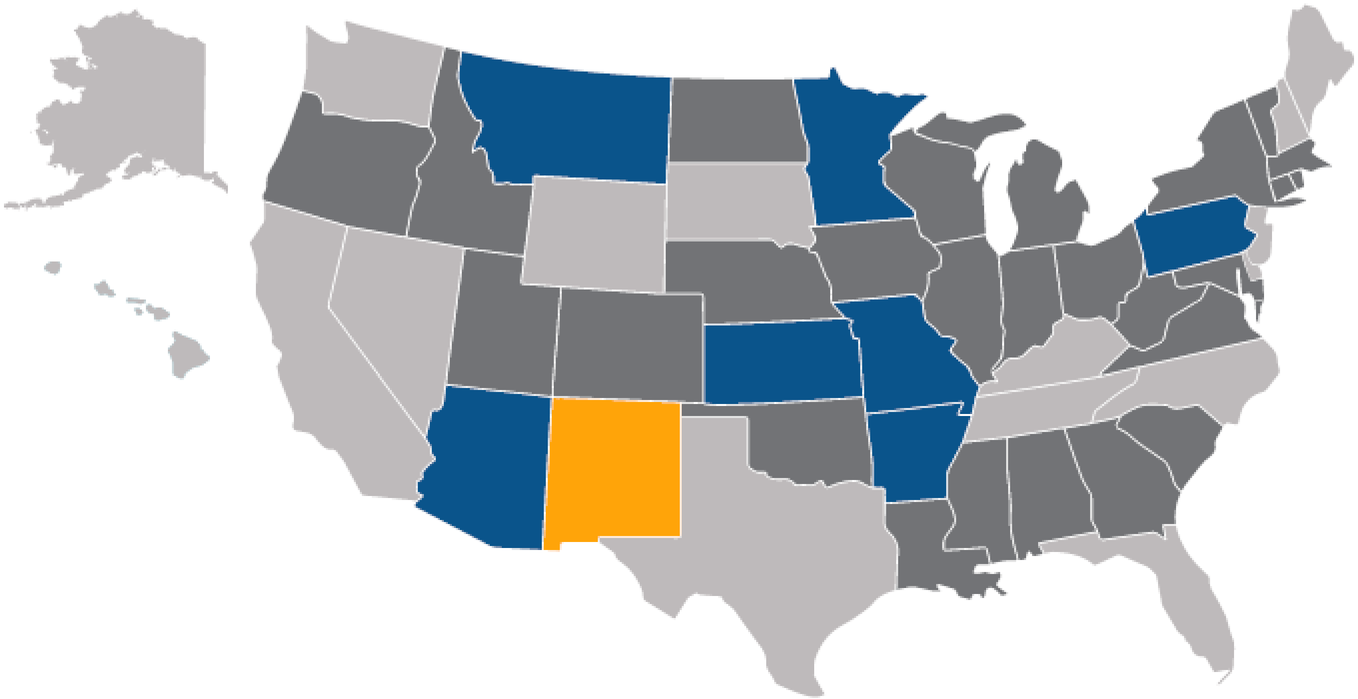
Higher Education Price Index (HEPI) vs. U.S. inflation

Over time, college costs have routinely outpaced inflation



Source: Commonfund Institute: Higher Education Price Index (HEPI) 2020; U.S Bureau Labor Statistics Unemployment Rate.

Tax benefits



New Mexico
Home of Scholar's Edge 529

Tax Parity
These states offer tax deductions for contributions to any 529 plan, regardless of state

Tax Neutral
These states do not offer tax deductions for 529 contributions

In-state tax benefit
These states offer tax deductions for 529 contributions to in-state plans

Comparing education savings plans

Rules	529 plans	Coverdell Education Savings Account (CESA)	UGMA/UTMA	Taxable savings account
Federal income tax	Contributions made with after-tax dollars. Earnings grow tax-free. Withdrawals for qualified education expenses are free from federal income tax	Contributions made with after-tax dollars. Earnings grow tax-free. Withdrawals for qualified education or K-12 expenses are free from federal income tax	Earnings and capital gains are taxed at the minor's tax rate	Earnings taxable at account owner's tax rate
Federal gift tax treatment	Contributions are treated as gifts; annual gift tax exclusion is up to $15k (single) or $30k (joint) per beneficiary. $75k (single) or $150k (joint) prorated over 5 years	Contributions are treated as gifts, annual gift tax exclusion of up to $15k (single) or $30k (joint) per beneficiary	Gifts and transfers to the minor are treated as completed gifts - $15k (single) or $30k (joint) as an annual gift exclusion	Differs by individual, consult tax advisor
Federal estate tax treatment	Amount removed from donor's estate, partial inclusion up to $75k ($150k filing jointly) if donor's death occurs within the 5-year election period	Amount removed from donor's estate	Amount removed from donor's estate unless donor remains as custodian	Differs by individual, consult tax advisor
Maximum investment	Determined by program. Scholar's Edge is $500,000	$2,000 per beneficiary per year from all sources	No limit	Not applicable, can be used for any purpose
Ability to change beneficiary	Yes to another member of the beneficiary's family, dependent upon plan	Yes to another member of the beneficiary's family, dependent upon plan	No, represents a gift to the child	Not applicable
Income restriction	None	Ability to contribute phases out for income $95k-$110k (single) or $190k-$220k (joint)	None	None

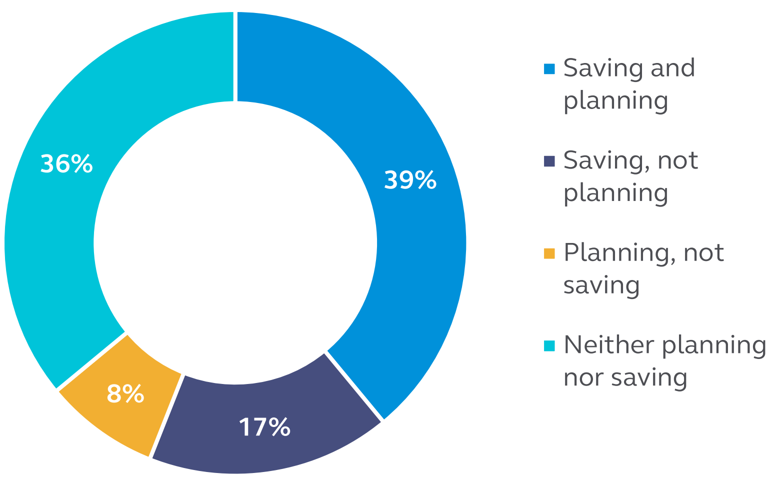
Comparing education savings plans (continued)

Rules as it relates to	529 plans	Coverdell Education Savings Account (CESA)	UGMA/UTMA	Taxable savings account
Qualified expenses	Tuition, fees, books, computers and related equipment, supplies, special needs, room and board for half-time students, and up to $10,000 in tuition expenses at private, public, and religious K-12 schools (state dependent)	Tuition, fees, books, equipment, supplies, special needs, room and board for half-time students, some K-12 expenses	No restrictions	No limit
Financial aid impact	If parent is account owner, assessed at up to 5.64% as an asset of the parent	If parent is account owner, assessed at up to 5.64% as an asset of the parent	Counted as the student's asset and assessed at 20%	Counted as assets of the account owner. assessed at up to 5.64% if owned by the parent
Investments	Account owner selects the investment portfolio within the plan	Range of securities and investments chosen by the account owner	Chosen by the custodian until child reaches majority	Chosen by account owner
Non-qualifying expenses	May be subject to federal income tax and a 10% federal tax penalty as well as state and local taxes	May be subject to federal income tax and a 10% federal tax penalty as well as state and local taxes	Funds must be used for benefit of the minor	Chosen by account owner
Age restrictions	None	Contributions can be made until beneficiary turns 18; account balance must be distributed by 30 days following beneficiary's 30th birthday	Custodianship terminates when minor reaches majority under state law (typically 18 or 21)	None

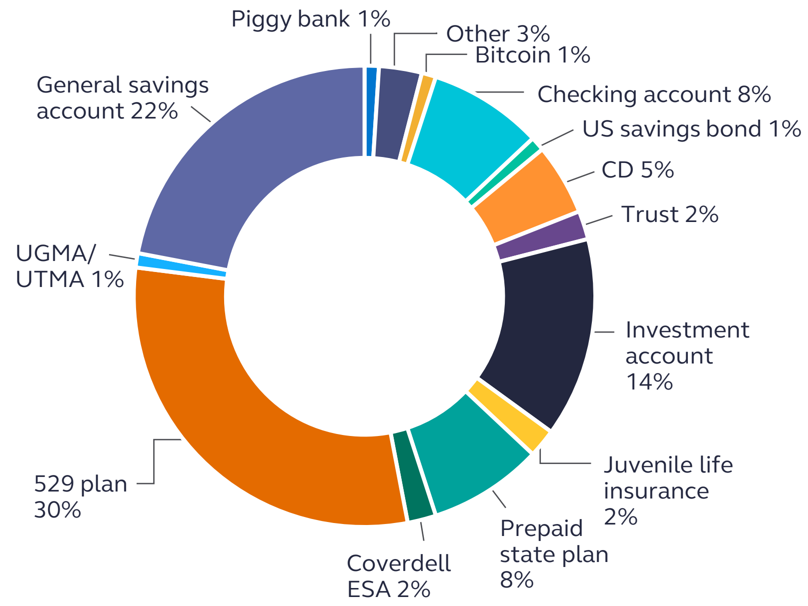
How people are saving

Over half of families are saving for college, but with variety of savings vehicles

Preparing financially for college



Proportion of college funds held in each account type

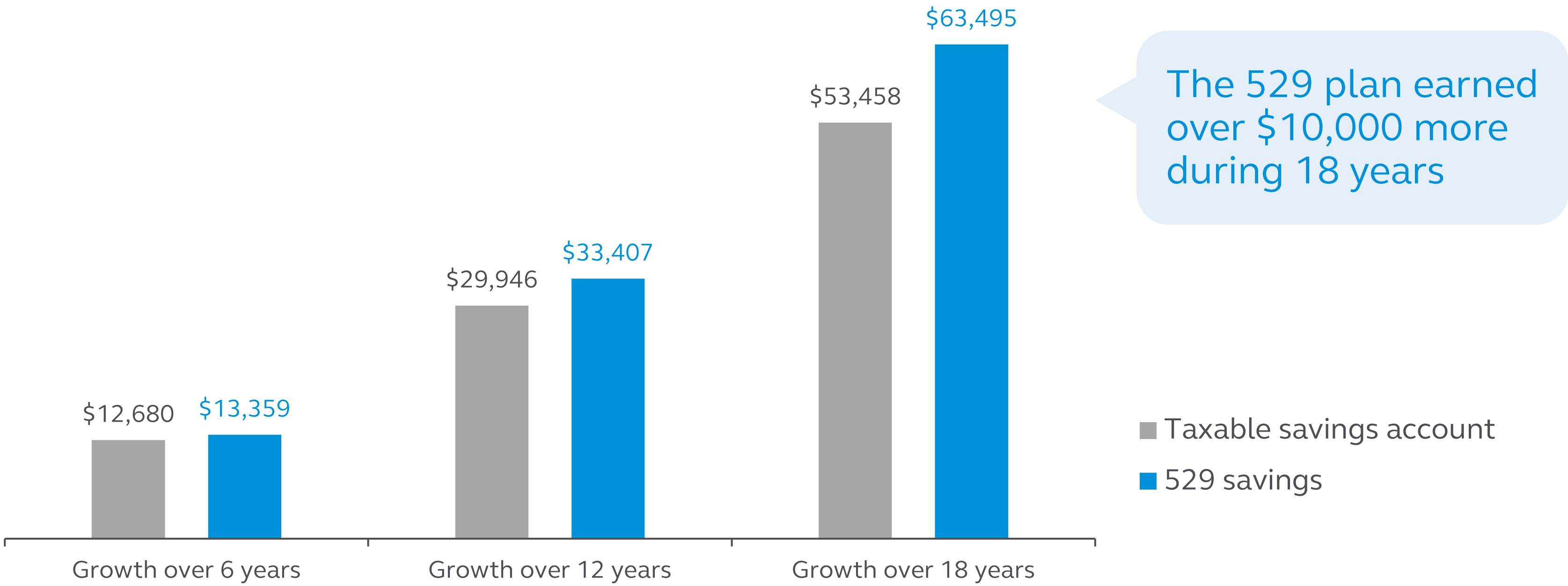


Source: "How America Saves for College" Sallie Mae and Ipsos, 2018.

Compounding savings over time

Taxable savings account vs. 529 savings

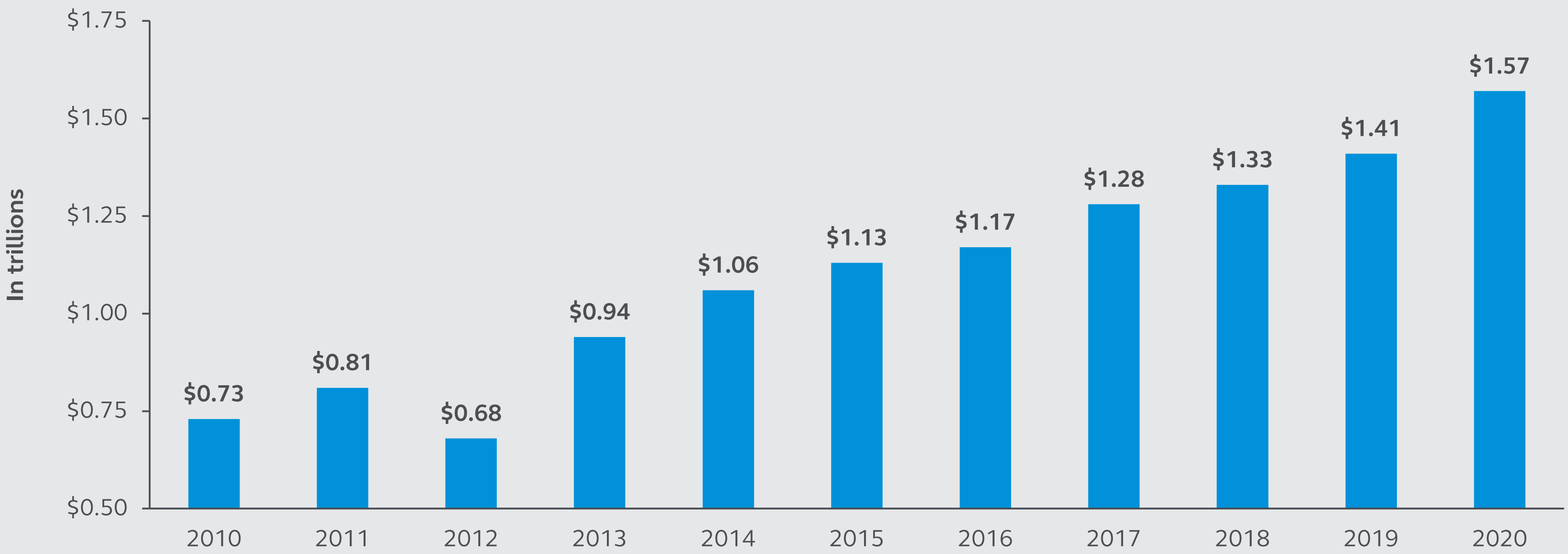
Example: Two families who invested differently, Family A and Family B. Both families opened their savings accounts and opted for monthly contributions of $150. Both families earned a 7.00% annual average rate of return on their investment. Family A invested in a 529 plan while Family B opened a taxable savings account.



These hypothetical examples are for illustrative use only and do not reflect an actual investment in any specific 529 plan. Families are assumed to be in the 24% tax bracket during contribution and distribution. The hypothetical examples assume a monthly contribution of $150, return on average annual investment of 7% and no withdrawals during the 18 years. This example's assumed rate of return is not guaranteed, and actual returns will vary. The difference in ending values between the 529 Plan account and the taxable account is due to the capital gains tax accrued annually on that account's earnings which is assumed to diminish the taxable account's value. Please keep in mind that withdrawals from 529 Plan account that are not used to pay for qualified higher education expenses of the beneficiary are subject to federal taxes (including a 10% federal penalty tax) such that any tax benefits of the 529 Plan will be lost.

Total student loan debt over past decade

Student loan debt continues to grow at a rapid pace



Source: Experian.

Student loans

A college education costs, on average, approximately $104,000 for a four-year, in state school for tuition and fees, room and board, books and supplies, as well as transportation.

Scenario	100% through a 529 plan A family invested $247 monthly for 18 years in a 529 plan	50% through a 529 and 50% through student loans A family invested $123 a month in a 529 plan. The student then takes out a student loan for $51,780 (payable over 10 years)	100% student loans A student finances her entire $104,000 expense through student loans (repaying over 10 years)
Investments			
Monthly investment	$247	$123	–
Years	18	18	–
Growth rate	7%	7%	–
Total invested	$53,352	$26,635	–
Future value	$104,554	$52,197	–
Loan[1]			
Loan amount	–	$51,780	$104,000
Interest	–	4.25%	4.25%
Years of repayment	–	10	10
Monthly payment	–	$530	$1,061
Loan total/Debt	–	$63,650	$127,301
Total out of pocket	**$53,352**	**$90,285**	**$127,301**

[1]Assumes 10 years to pay off the loan and average annual return of 7% in the 529 plan account. This example's assumed rate of return is not guaranteed, and actual returns will vary. These hypothetical examples are for illustrative use only and do not reflect an actual investment in any specific 529 plan.

Financial aid

Financial aid is need-based and is determined by
Cost of attendance – expected family contribution = financial need

FAFSA
Free Application for Federal Student Aid

- Helps to determine amount of federal aid families are eligible for.
- Used by many public, private, community, and vocational schools to calculate financial aid packages (the amount of aid – whether through grants, scholarships, or loans–offered by a school to a student).

COA
Cost of Attendance

- Reflects the cost of attending a specific school.
- Includes tuition, room, board, and related fees and expenses.

EFC
Expected Family Contribution

- Amount a family is expected to contribute to education costs each year.
- Determined by FAFSA submission, not dependent on specific school's COA.
- Cost of Attendance – EFC = Financial Need.
- Keep in mind: EFC does not always reflect a family's actual ability to pay.

Source: U.S. Department of Education

Assets and income – impact to the EFC

Income that counts toward the EFC:

- **Student:** 50% of adjusted gross income over $3,000.
- **Parents:** 22%-47% of available income.
- **Grandparents:** If providing financial support or distributions of a 529 plan for college expenses in the first two years, it is counted on the following year's FAFSA as student income.

Asset that count toward EFC:

- **Student:** 20% of assets for UGMA/UTMA assets, minor trusts and savings bonds.
- **Parents:** up to 5.64% of assets such as mutual funds, securities, bank accounts, 529 plans owned by the parent or student, and Coverdell accounts.
- **Grandparents:** not included in FAFSA calculations.

What does not count toward the expected family contribution?

- 529 plans and Coverdell accounts owned by someone other than the parent or student are not required to be disclosed when applying for financial aid. Any money disbursed from the accounts will be reported as income on the FAFSA.
- Life insurance and retirement accounts owned by either the parent or student are also not required to be disclosed but are counted as income on the FAFSA if distributed.

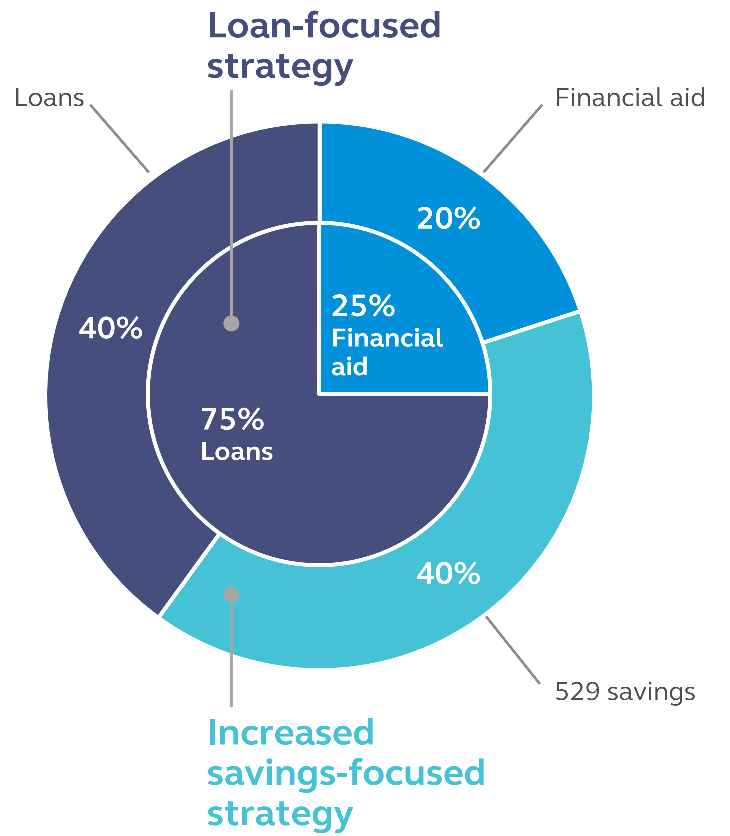
Source: Savingforcollege.com, as of September 15, 2020.

Saving now means borrowing less later

Savings-focused strategy

Sophie's family:
Savings-focused education funding strategy.

Assume Sophie's education costs are $100,000 and her family saved a portion of that in a 529 college savings plan. This reduced the amount of loans she would have to take, but did not create a large reduction in the amount of financial aid received.



For illustrative use only

Saving now means borrowing less later

Beyond education savings, 529 plans can help families leave a legacy

When considering whether to use a 529 plan in your estate plan, keep in mind the following key points

Contributions	Accelerated gifting	Tax planning	Tax-free withdrawals	Control
An individual may contribute up to $15,000 a year ($30,000 for a married couple) per beneficiary without triggering the **federal gift tax.**[1]	Special gift and estate tax treatment allows an individual to contribute up to $75,000 ($150,000 for married couples) in one lump sum, per beneficiary, free of federal gift taxes (i.e. five times the annual gift tax exclusion), under a provision known as "**accelerated gifting**."	Contributions made to a 529 plan are considered completed gifts for estate tax purposes, so they are **excluded from your taxable estate** if death occurs before the funds are distributed, even though the account remains under your control.	529 college savings plan contributions and investment earnings may be withdrawn **federal income tax free** if the money is used for Qualified Higher Education Expenses.[2]	The **529 college savings plan owner maintains complete control** over the account assets, is allowed to make beneficiary changes and can close the account and take the proceeds.[2]

Source:

[1] The gift-tax exclusion applies, provided the 529 account owner makes no other gifts to the beneficiary during a five-year period. Contributions between $15,000 and $75,000 ($30,000 and $150,000 for married couples filing jointly) made in one year may be prorated over a five-year period without subjecting the donor(s) to federal gift tax or reducing his/her federal unified estate and gift tax credit. If an individual contributes less than the $75,000 maximum ($150,000 for married couples filing jointly) additional contributions may be made without subjecting the donor to federal gift tax, up to prorated level of $15,000 ($30,000 for married couples filing jointly) per year. Gift taxation may result if a contribution exceeds the available annual gift tax exclusion amount remaining for a given beneficiary in the year of contribution. If the account owner dies before the end of the five-year period, a prorated portion of contributions between $15,00 and $75,000 ($30,000 and $150,000 for married couples filing jointly) made in one year may be included in his or her estate for estate tax purposes. Please consult your tax and/or legal advisor for further guidance.

[2] Non-qualified withdrawals from a 529 plan are subject to income tax and a possible 10% federal penalty on the earnings portion of the account.

Questions

Disclosures

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Investors should consider before investing whether their or their designated beneficiary's home state offers any state tax or other benefits that are only available for investments in such state's qualified tuition program, such as financial aid, scholarship funds, and protection from creditors, and should consult their tax advisor.

Before investing in the Plan, investors should carefully consider the investment objectives, risks, charges and expenses associated with the Plan's municipal fund securities. The Plan Description and Participation Agreement contains this and other information about the Plan, and may be obtained by asking your financial professional , by visiting scholarsedge529.com or calling 1.866.529.SAVE (1.866.529.7283). Investors should read these documents carefully before investing.

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