# PAYROLL DEDUCTION PROGRAM FOR COLLEGE SAVINGS

## Additional Frequently Asked Questions

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**Q. Is there a difference between a 529 Plan purchased through an advisor and a 529 Plan that is purchased directly from the Program Manager or the sponsoring State?**

**A.** The only difference between 529 Plans sold through an advisor and those purchased directly is the level of advice that you will receive. The cost of the advice from a financial advisor is the "load" fee that advisor type Plans have. The benefit of the advisor is that you will have someone help you select the 529 Plan best suited for your family, considering all factors such as years remaining until college, state income tax benefits, risk tolerance, etc. Some states only offer Plans through a financial advisor, and some offer only direct sold Plans. Other states offer both advisor and direct sold Plans.

**Q. Can I close an existing custodial account for a child (UTMA/UGMA accounts) and use the assets to open a 529 Plan?**

**A.** Depending upon the terms of a 529 Plan, custodial accounts can be changed into 529 Plan accounts. The 529 Plan must be a custodial type of 529 Plans so that the child (as represented by the custodian) remains as the rightful owner of the account. You cannot take custodial account assets and use them to open a 529 Plan that does not reflect the custodial nature of the account.

**Q. To move assets from a custodial account to a 529 Plan, must the custodial account assets be sold?**

**A.** To transfer an existing custodial account into a 529 Plan custodial account you must first sell all of the assets in the custodial account. 529 Plans can only receive cash, and so all custodial account investments must be liquidated. This may result in an income tax or capital gain tax on the custodial account assets.

**Q. Does a gift into a 529 Plan account incur a gift tax?**

**A.** Special gift tax rules for 529 Plans allow you to make a tax free gifts into a 529 Plan of $11,000 per beneficiary, per year ($22,000 for married couples) to as many people as you like. You can even accelerate these gifts by making 5 years' worth of gifts ($55,000 per beneficiary, or $110,000 for married couple) all at once.

**Q. What happens if a state does not renew its contract with a Plan Manager?**

**A.** Each Plan Manager has a contract with a host state to provide 529 product services. These contracts can be of any length but are typically five years or more. As these contracts come up for renewal, some states will elect to make changes thereby having an impact on the 529 Plan investments. In some cases, the existing Plan Manager will be allowed to retain the Plan assets for some period of time. In other circumstances the investments in the Plan Manager's 529 offerings will be transferred into the new Plan Manager's similar type of offerings.

ADP Retirement Services

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**Q. Does it make sense to have more than one 529 Plan account for the same beneficiary?**

**A.** There are times when it does make sense to have several accounts for one beneficiary, the most notable reason is to maximize possible state income tax deductions. For example, if you reside in a state that gives a small income tax benefit for contributions to the home state's Plan, you may wish to consider contributing to the home state Plan the amount necessary to fully use the income tax deduction. The balance of your college savings you might wish to invest in a different 529 Plan that might have investment options you prefer or better performance, fees and expenses.