Investing in a child's future with a Section 529 plan

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A child's future begins with a great education

Planning ahead for education expenses is often the centerpiece of your dreams for your child's future. How can you find the best way to reach that goal and stay on track through all the changes life presents along the way?

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Opening doors and unlocking potential

What opportunities do you want to give your child? Will your child attend public schools until college, or do you plan to use private elementary or preparatory schools? Will they participate in an apprenticeship or pursue an advanced degree? Will your child help pay for their own education?

An education provides a strong foundation for success. Beyond just earning power, education gives young people learning power — the power to tackle new challenges and opportunities in life with confidence.

When you think about your child's education, it's often helpful to start with the big picture questions and then use your answers to help create an education savings strategy that works for you and your family.

Your Merrill Lynch Wealth Management Advisor is committed to understanding your family's education needs and what matters most to you. With your specific goals in mind, they can help you design a strategy that can help keep your education funding plans on track. Your relationship with your financial advisor can be an important resource for helping you achieve the education you want for your child.

Considerations for parents

- Start planning for education expenses early.
- Explore your funding options.
- Review your investments against your funding goals each year.

Considerations for grandparents

- Leave a legacy of education to grandchildren by helping fund their college expenses.
- Consider gifting strategies for grandchildren that help remove assets from your taxable estate while keeping control of your assets.

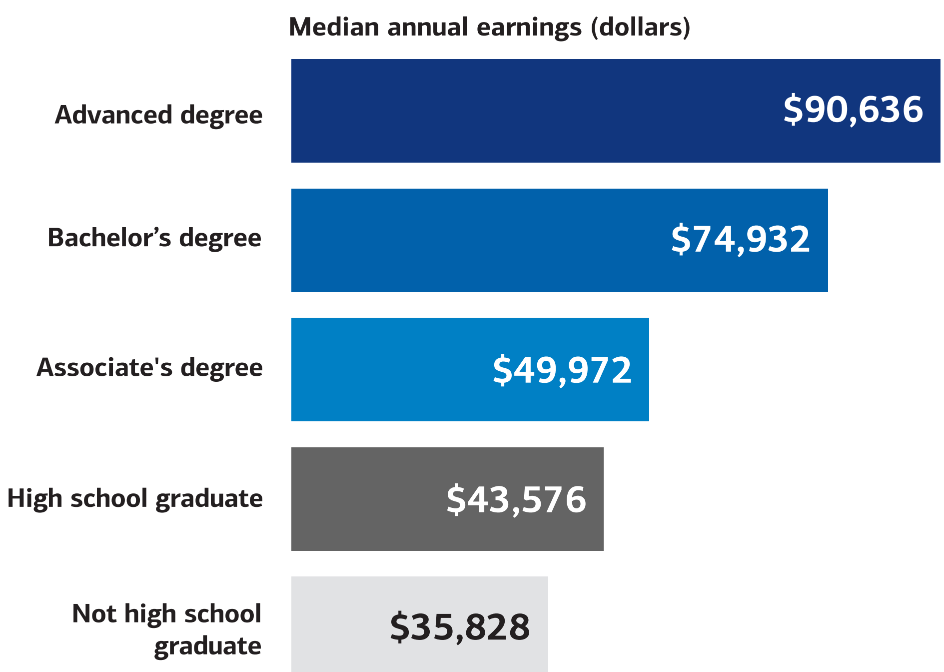
College costs are rising

Which grows faster, your child or the cost of college? For the 2011–2012 school year, the average published tuition and fees for a public four-year college was $9,890. In 2021–2022, the cost rose to $10,740. Over the same period, published tuition and fees at private nonprofit institutions increased from $33,320 to $38,070.[1] To pay for these costs, families are often drawing upon a wide range of resources, including scholarships and grants, parent income and borrowing.

As the chart to the right demonstrates, education generally equates to higher earnings potential. According to a 2022 survey conducted by the U.S. Bureau of Labor Statistics, a person with a bachelor's degree earned on average 72% more than a typical high school graduate. Someone with an advanced degree made 21% more than someone with a bachelor's degree.[2]

A college degree leads to higher income

Annual earnings of wage and salary workers, second quarter 2022

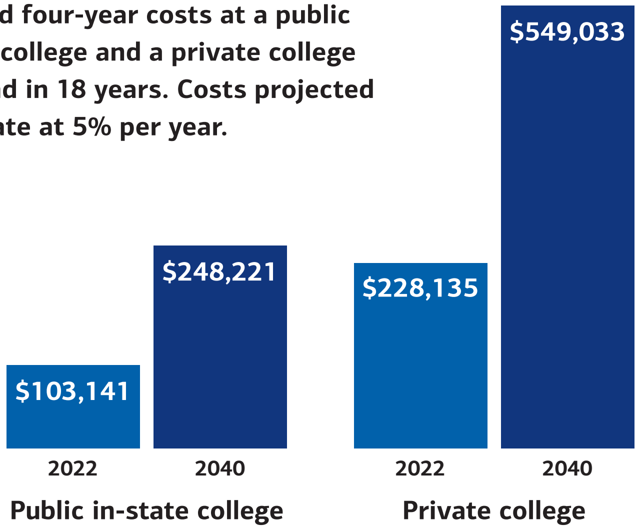


Source: Bureau of Labor Statistics, www.bls.gov. Table 5. Quartiles and selected deciles of usual weekly earnings of full-time wage and salary workers by selected characteristics, second quarter 2022 averages, not seasonally adjusted. Weekly amounts multiplied by 52 to determine annual earnings shown on chart.

At the same time, the cost of college is going up. Over the past two decades, the average annual increases in college costs have exceeded annual inflation rates (as measured by the Consumer Price Index) almost every year.

Four-year cost of college is going up

Projected four-year costs at a public in-state college and a private college today and in 18 years. Costs projected to escalate at 5% per year.



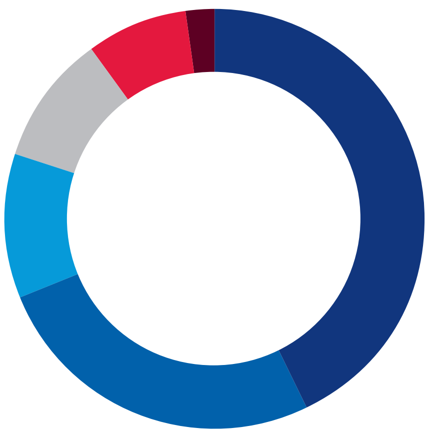
Source: Merrill and Merrill College Planning Calculator, October 2022. College costs include tuition, room and board. Assumes a 5% annual increase in costs.

Developing a road map for higher education savings

Many families use a combination of sources to pay for higher education-related expenses, including scholarships, grants, personal loans and savings. After parent income and savings, the second most popular source for funding higher education costs is scholarships and grants.

Because parent savings plays such an important role, consider saving as much as you can now. Even if your children are older, there may still be opportunities for building your higher education savings.

Average percentage of total cost of attendance paid by source



- 43% Parent Income and Savings
- 26% Scholarships and Grants
- 11% Student Income and Savings
- 10% Student Borrowing
- 8% Parent Borrowing
- 2% Relatives and Friends

Source: Sallie Mae's *How America Pays for College* 2022 study conducted by Ipsos.

Begin your journey with a 529 plan

Section 529 plans are offered by individual states and provide families with a flexible, tax-advantaged way to invest for education expenses. You can use funds from a 529 plan to pay for qualified higher education expenses.[3]

Who can open a 529 plan account?

Anyone age 18 or older with a valid Social Security number or U.S. taxpayer identification number (and a valid physical address within the U.S. or Puerto Rico) can open a 529 plan account. So grandparents, parents, aunts, uncles and even family friends can invest for a child's primary, secondary or higher education. There are no income or age limits on contributions.

How much can you contribute?

Many plans allow you to make contributions of $300,000 or more per beneficiary. However, you can only make annual contributions of up to $18,000 ($36,000 for a married couple electing to split gifts) a year without incurring a federal gift tax in 2024. Contributions are generally considered completed gifts and excluded from your estate for federal estate tax purposes, even though you (the account owner) retain control of the assets.

Under a five-year gifting provision, you may be eligible to make a special gift tax election and make 529 plan account contributions of $90,000 ($180,000 for a married couple electing to split gifts) for each beneficiary in one year, and elect to prorate it over five years, as long as no additional contributions or other gifts to the designated beneficiary are made during the five-year period.[4] This election generally will not result in a gift tax liability for you or reduce your federal unified estate tax credit. This advantage can be attractive if you have multiple children or grandchildren. By making multiple gifts, you can remove significant assets from your taxable estate while helping to pay education costs for your loved ones.

Are withdrawals tax-free?

Section 529 plans provide significant tax advantages.

Withdrawals, including any earnings generated, are federal (and possibly state and/or local) income tax-free as long as withdrawals are used for qualified higher education expenses as defined in the Internal Revenue Code.[3]

Qualified higher education expenses include (state tax treatment may vary):[3]

- Tuition and fees.
- Certain room and board expenses.
- Books, supplies and equipment required for the enrollment or attendance of the beneficiary at an eligible educational institution.
- Certain expenses for special needs beneficiaries at any accredited school, including public or private universities, graduate schools, community colleges and accredited vocational and technical schools.[5]
- Computers or peripheral equipment, computer software or internet access and related services if used primarily by the beneficiary during any of the years the beneficiary is enrolled at an eligible educational institution.
- Up to $10,000 per year per beneficiary to help pay for tuition in connection with enrollment or attendance at an elementary or secondary public, private or religious school.
- Expenses required for the participation of a designated beneficiary in a registered and certified apprenticeship program.
- Payment of student loans up to a lifetime maximum of $10,000 for a designated beneficiary (the lifetime maximum is applied separately for the sibling's loans versus the designated beneficiary's loans). State tax treatment may vary.

Are there state tax benefits?	Certain states may offer state tax or other state benefits such as financial aid, scholarship funds and protection from creditors for investing in their Section 529 plans. **Before investing, you should consider whether your home state or your beneficiary's home state offers state tax or other state benefits such as financial aid, scholarship funds and protection from creditors that are available only for investments in such state's 529 plan.** Your tax professional and financial advisor can help you consider the tax implications of participating in your home state plan versus an out-of-state plan. Be sure you understand all of the tax aspects for your individual situation before choosing a plan.
What's the impact on financial aid?	Section 529 plans are generally treated more favorably for federal financial aid purposes than other savings vehicles.[6] For example, qualified distributions to pay for this year's college expenses are not included in the base year income that would reduce college financial aid eligibility.
What are your investment options?	Most Section 529 plans offer a wide range of investment choices, including age-based options — which automatically shift from more aggressive equity funds to more conservative fixed-income funds and cash as the beneficiary nears college age. What's more, you retain control of the assets, so they can be used to benefit other family members if the current beneficiary does not use them.[7] Please remember there's always the potential of losing money when you invest in securities. Also, diversification and asset allocation do not ensure a profit or protect against loss in declining markets.

New legislation gives 529s greater flexibility

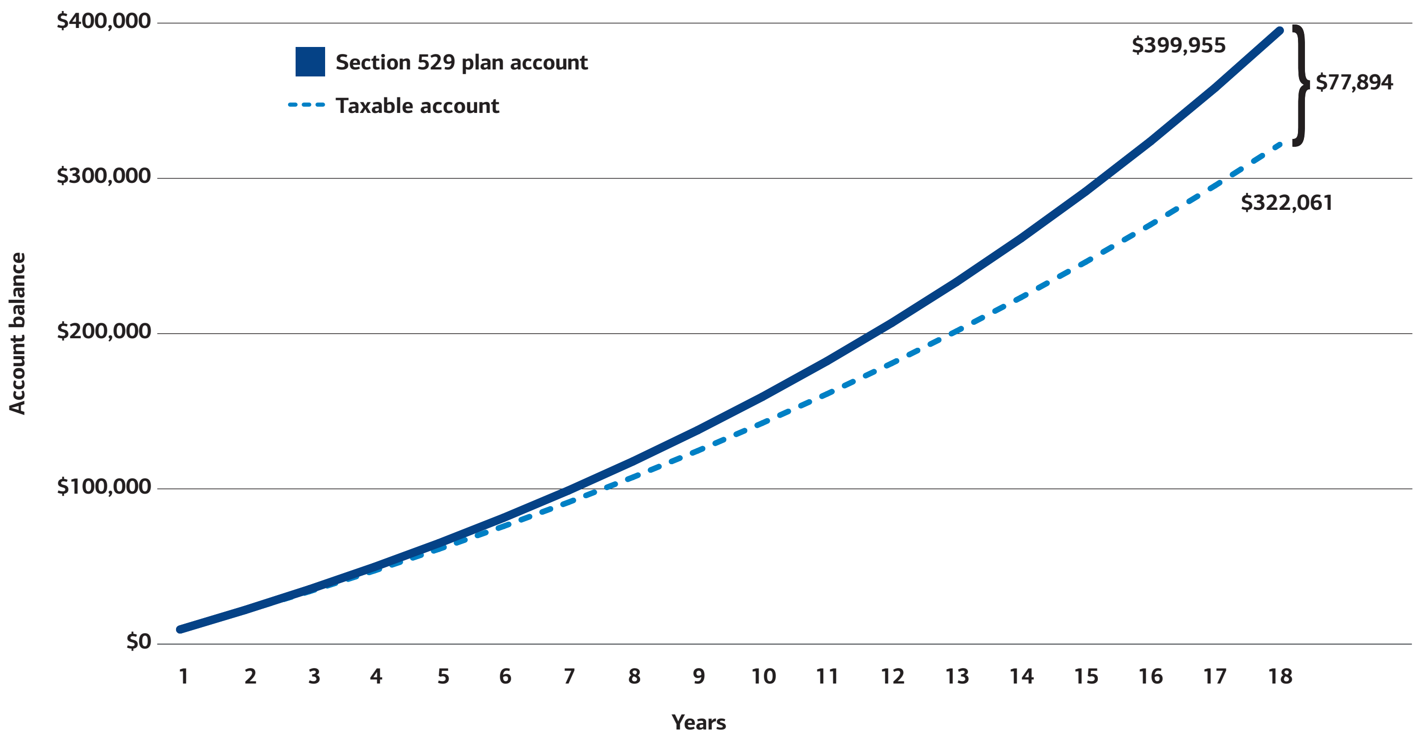
Effective for distributions made on or after January 1, 2024, 529 assets can be rolled over to a Roth IRA without federal taxes or penalties if the withdrawal meets the following criteria:

- The 529 account has been open for at least 15 years.
- The Roth IRA is in the same name as the 529 account beneficiary.
- The rollover does not exceed (i) Roth IRA annual contribution limits or (ii) the amount of annual compensation (as defined in the Internal Revenue Code) of the Roth IRA owner. However, Roth IRA income limits do not apply to a rollover from a 529 plan account to a Roth IRA.
- The rollover is limited to:
  - the aggregate amount of contributions made to the 529 account (and any earnings) before the 5-year period ending on the date of the rollover; and
  - a lifetime rollover limit of $35,000 per 529 account beneficiary

Tax-free growth makes a big difference[3]

Any earnings on investments have the potential to grow free from federal (and possibly state and/or local) income taxes, allowing your account assets to potentially grow and accumulate faster than in a similar taxable account.

Over time, the value of an investment account that is tax-free generally will exceed the value of a similar, taxable investment account. See the chart below showing how tax-free growth can make a difference.



For both accounts, the chart assumes a 7% rate of return compounded annually, and that $10,000 is invested on January 1 every year for 18 years. For the Section 529 plan account, earnings are not taxed. For the taxable account, earnings are taxed at 28%. The chart is illustrative only and does not reflect an actual investment in a Section 529 plan. Investments are subject to market and other investment risks. Returns are not guaranteed and may be less than or more than the amount invested.

It does not take into account the fees or expenses associated with either the Section 529 plan or investing outside the Section 529 plan.

Source: Merrill.

The flexibility to transfer funds to another family member[7]

You can name anyone as beneficiary of the account — your children, grandchildren, nieces, nephews, spouses — even non-relatives or yourself. And, if the original beneficiary doesn't use all of the funds for education, the funds can be transferred to a family member of the original beneficiary at any time without any income tax consequences.

Choose from a wide array of investment strategies to meet your needs

Your Merrill Lynch Wealth Management Advisor can help you select an investment option that best meets the needs of the student, as well as the family's comfort level with investment risk. Typical investment options include:

Age-Based Diversified Portfolios: These portfolios provide an investment strategy that varies based on the age of the child and when the child is expected to need the assets for education expenses. Funds are invested most aggressively when the child is young, and are automatically shifted to more conservative investments as the child approaches college age. Selecting an age-based portfolio may be appropriate if you prefer not to actively manage the investments.

Diversified Portfolios: These portfolios have specific investment objectives, such as growth or income. Unlike the Age-Based Diversified Portfolios, each Diversified Portfolio has an established allocation that does not automatically change over time. These portfolios allow you to build a strategy for your own personal investment needs.

Single Fund Portfolios: These portfolios invest in one underlying investment, allowing you to customize your allocations based on the range of underlying investments. They may be appropriate if you prefer a hands-on approach and want to customize an asset allocation with the selected investment portfolios.

Preparing for a lifetime of success

For your child or grandchild, an education provides an opportunity to develop knowledge and skills that will last a lifetime. Turning dreams into reality requires some advance planning, setting clear goals and understanding your priorities today.

Your Merrill Lynch Wealth Management Advisor can help you pursue your education funding goals. To learn more, call 800.MERRILL or visit ml.com.

Before you invest in a Section 529 plan, request the plan's official statement from your Merrill Lynch Wealth Management Advisor and read it carefully. The official statement contains more complete information, including investment objectives, charges, expenses and risks of investing in the plan, which you should carefully consider before investing. You should also consider whether your home state or your beneficiary's home state offers any state tax or other state benefits such as financial aid, scholarship funds and protection from creditors that are available only for investments in such state's 529 plan. Section 529 plans are not guaranteed by any state or federal agency.

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Any tax statements contained herein were not intended or written to be used, and cannot be used for the purpose of avoiding U.S. federal, state or local tax penalties.

[1] Source: *Trends in College Pricing and Student Aid, 2021*.

[2] Source: Bureau of Labor Statistics, www.bls.gov. Table 5: Quartiles and selected deciles of usual weekly earnings of full-time wage and salary workers by selected characteristics, second quarter 2022 averages, not seasonally adjusted.

[3] To be eligible for favorable tax treatment afforded to the earnings portion of a withdrawal from a Section 529 account, such withdrawal must be used for "qualified higher education expenses," as defined in the Internal Revenue Code. The earnings portion of a withdrawal that is not used for such expenses is subject to federal income tax and may be subject to a 10% additional federal tax, as well as applicable state and local income taxes. The additional tax is waived under certain circumstances. Qualified higher education expenses include: tuition, fees, books, supplies and equipment required for enrollment or attendance of the beneficiary at an eligible educational institution, certain room and board expenses, special needs services incurred in connection with enrollment or attendance at an eligible educational institution, and computers or peripheral equipment, computer software, or internet access and related services that are to be used primarily by the beneficiary during any of the years the beneficiary is enrolled at an eligible educational institution. The beneficiary must be attending an eligible educational institution at least half time for room and board expenses to be considered a qualified higher education expense, subject to limitations. Institutions must be eligible to participate in federal student financial aid programs to be eligible educational institutions. Some foreign institutions are eligible. You can also take a federal income tax-free distribution from a 529 account of up to $10,000 per calendar year per beneficiary from all 529 accounts to help pay for tuition at an elementary or secondary public, private or religious school. Qualified higher education expenses now include expenses for fees, books, supplies, and equipment required for the participation of a beneficiary in an apprenticeship program registered and certified with the Secretary of Labor under the National Apprenticeship Act and amounts paid as principal or interest on any qualified education loans of the beneficiary or sibling of the beneficiary, up to a lifetime maximum of $10,000 per individual. Distributions with respect to the loans of a sibling of the beneficiary will count towards the lifetime limit of the sibling, not the beneficiary. Such repayments may impact student loan interest deductibility. State tax treatment may vary for distributions to pay for tuition in connection with enrollment or attendance at an elementary or secondary public, private or religious school, apprenticeship expenses, and payment of qualified education loans.

[4] Contributions during 2024 between $18,000 and $90,000 ($36,000 and $180,000 for married couples electing to split gifts) made in one year can be prorated over a five-year period without subjecting you to gift tax or reducing your federal unified estate and gift tax credit. If you contribute less than the $90,000 ($180,000 for married couples electing to split gifts) maximum, additional contributions can be made without you being subject to federal gift tax, up to a prorated level of $18,000 ($36,000 for married couples electing to split gifts) 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. For contributions between $18,000 and $90,000 ($36,000 and $180,000 for married couples electing to split gifts) made in one year, if the account owner dies before the end of the five-year period, a prorated portion of the contribution may be included in their estate for estate tax purposes.

[5] Institutions must be eligible to participate in federal financial aid programs. Some foreign institutions are also eligible.

[6] This is based on current interpretation of federal financial aid rules. Financial aid rules may change, and the rules in effect at the time the beneficiary applies may be different. For more complete information, please go to the Department of Education's website at www.ed.gov.

[7] The participant/account owner can change the beneficiary to a member of the family of the beneficiary (as defined in the Internal Revenue Code) without adverse income tax consequences.

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