

Courtesy of: Royalty Owner Help Desk

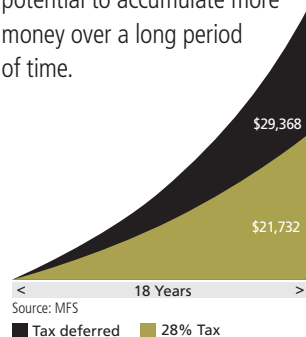


Education planning

By the numbers

Less taxing, greater growth potential

An investment that is allowed to grow tax deferred has the potential to accumulate more money over a long period of time.



Annual return: 6%

Initial investment: \$10,000

Tax bracket: 28%

This example is for illustrative purposes only and is not intended to predict the returns of any investment choices. The underlying investments of your 529 plan may have fees and expenses that are not taken into account in this illustration. The performance of the investments will fluctuate with market conditions. If there were no earnings, the account would not grow.

¹ Source: MFS® estimates using College Board 2008-2009 tuition and college inflation data. Assumes college costs increase at 5.9% a year on average for public and private schools.

529 college planning

With the average cost for four years at a private college (tuition, room, board, and other expenses) climbing to \$136,528 (\$57,332 at a public in-state university), it is little wonder that many American families are concerned about their college savings.¹

529 plans are investment programs designed with one basic purpose in mind — providing families with an easy and effective means to save for future college costs. But they also have tax, retirement, and estate planning implications that extend far beyond this basic purpose.

Most states have a 529 plan of some sort. Most of these programs are open to residents and nonresidents of the sponsoring state, so you can shop among them for the one that best meets your objectives.

Anyone can use a 529 plan

Do not assume you are not in a position to use a 529 plan. Unlike most other tax-advantaged programs, 529 plans are open to everyone, regardless of income level or age of children or grandchildren. You do not even need to have children or

grandchildren — you can establish an account for your favorite niece, or with some plans, yourself. Many plans will allow you to make a contribution of \$300,000 or more into an account with no time limit on its use.

Your financial advisor can show you how a 529 plan may fit into your financial picture and help you select the one that is right for your family. You can do the research on your own, but you will find that the investment options and program features vary considerably among the different programs, and the comparisons can become confusing.

Types of 529 plans

There are two general types of 529 plans: prepaid tuition plans and college savings plans. States may offer one type of plan or the other, and some states are now offering both.

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Key points

529 college plans provide several benefits, including

- tax-free accumulations of earnings
- flexibility in selecting investments
- higher contribution limits than other college savings programs

529 plans allow you to

- roll over money from one state's 529 plan to another's
- change beneficiaries as long as the new beneficiary is within the same immediate family

- fund the education of a child, grandchild, niece or nephew, family friend, or even yourself
- control account withdrawals even after the beneficiary reaches legal age



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- **Prepaid tuition plans** are state- or institution-operated trusts offering contracts that promise to cover future tuition costs at designated public and private institutions. The price of the contract is pegged to current tuition levels, although some plans may provide discounts under certain circumstances. These programs may be restricted to in-state residents.
- **College savings plans**, on the other hand, are essentially state-sponsored investment portfolios, and many are open to residents as well as nonresidents. The account owner's contribution to the 529 plan potentially will grow in value over time to help keep up with the increasing price of higher education. As with any investment, returns will depend on the market and on the portfolio's allocation between stocks and bonds.

Most of the newer plans are 529 college savings plans, and generally they are viewed as more flexible than prepaid tuition plans.

Tax-advantaged investing

Earnings in 529 plans are tax deferred, and withdrawals are free from federal tax if used for qualified higher education expenses. If you withdraw money for something other than qualified higher education expenses, you will be subject to federal income tax on your earnings and may face a 10% federal tax penalty. There are exceptions to the penalty if the beneficiary dies, becomes disabled, or receives a scholarship that reduces his or her need for college funds.

Qualified education expenses from a 529 savings plan include the following costs at just about any accredited post-secondary institution in the country, including graduate schools:

- tuition
- fees
- books
- supplies

In addition, room and board expenses can qualify (subject to limits) if the student is attending college on at least a half-time basis.

As its name implies, a prepaid tuition plan covers only tuition and mandatory fees.

Estate planning features

With a 529 plan, you can help fund a college education and at the same time potentially reduce estate taxes — which makes it a great tool for many grandparents. Under current rules, you can gift up to \$13,000 per year (\$26,000 per married couple) per beneficiary without incurring federal gift-tax consequences. Or you may gift up to \$65,000 (\$130,000 per married couple) to each beneficiary. You will not incur federal gift taxes as long as no additional gifts are made to the beneficiary for four years after the year during which you make the one-time gift and the appropriate tax form is filed.

Control of assets

For each prepaid tuition contract or savings plan account, there is an "owner" (generally the donor) and a "beneficiary." You name a beneficiary when you set up an account; the individual you name does not have to be related to you.

With a 529 plan, you are the owner and retain all rights to the account, including the right to determine when withdrawals are taken and for what they are used. You can change the beneficiary to another relative (of the beneficiary) at any time, and you can even decide to revoke the account and obtain a refund.

A powerful opportunity

The following example demonstrates how powerful this opportunity can be. Grandma and Grandpa have significant wealth, including \$1 million in bonds and cash. They want to reduce their estate tax exposure and like the idea of targeting some of their money for the college education of their seven young grandchildren. They decide to contribute a combined \$120,000 into a 529 plan on behalf of each grandchild. The result is that Grandma and Grandpa have removed \$840,000 (\$120,000 x 7 grandchildren) from their estates in one day, without gift tax consequences and without incurring the costs associated with irrevocable trusts.² Further, the contributions are invested in a professionally managed investment account that may grow tax deferred without the burden of annual income taxes. And best of all, Grandma and Grandpa can always get the money back if they do not mind paying the 10% penalty tax on their earnings.

Financial aid treatment

According to the U.S. Department of Education, if the parent is the account owner, the assets in a 529 savings plan account are treated in the federal financial aid formula as assets of the parent. Since parental assets are

² Example assumes Grandma and Grandpa live for four years after the year of the gift, do not make additional gifts during that time, and filed the appropriate tax form.

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generally assessed at a maximum 5.6% in determining aid eligibility (as compared with 20% for assets owned by the student), a 529 plan owned by the parents may help families qualify for more student aid.

Investment issues

Each state-sponsored 529 plan is free to design an investment approach that it feels will best accomplish the goal of saving for college. One condition imposed by tax law is that the participant in the 529 plan may not have the unlimited ability to direct the investment of the account. For example, as the account owner you can reallocate your account balance among investment options only twice a year in 2009 or upon a change to the designated beneficiary of the account. Although this somewhat paternalistic provision is seen by some as a reason not to use 529 plans, the fact is that among the many 529 plans offered, there are a variety of investment approaches. Many plans have outsourced the investment and program management to large financial services companies that provide professional investment management to plan participants.

Many plans now offer an “age-adjusted” investment program. Your account is invested primarily in equity funds while your child is young and shifts to more conservative fixed-income funds as your child gets closer to college age. In addition to an age-adjusted program, some plans now include a menu of fixed-allocation investment portfolios, ranging from all-equity portfolios to 100% fixed-income portfolios.

Important considerations

There are additional fees associated with 529 savings plans. Investments in 529s are generally municipal securities and involve investment risks. You should consider your financial needs, goals, and risk tolerance prior to investing. Some states may limit your ability to roll over your 529 account from their plan to another state’s plan.

Be sure to investigate the 529 plan in your own state and see if it offers any special benefits to state residents (such as a tax deduction for your contribution, matching grants, or state financial aid preference). Depending on your state of residence and the state of residence of the beneficiary, an investment in a 529 plan may not afford you or your beneficiary state tax benefits.

Shop around and look at other 529 programs, both those sponsored by other states and those sponsored by institutions. Consult your financial advisor for help with understanding how 529 plans work and to compare the details of competing plans. The effort may be worth it if you are looking for a tax-advantaged way to save for future college expenses.

Resources

collegeboard.org

Calculate college costs online with the “College Costs Calculator” available at mfs.com in College Planning/Calculate for College.

There is a \$25 annual account fee associated with the MFS® 529 Savings Plan. This annual fee is waived for Oregon residents and for those accounts with assets of \$25,000 or more. Investments in 529 plans involve investment risks. You should consider your financial needs, goals, and risk tolerance prior to investing. Clients investing in 529 savings plans should consult a tax advisor or other financial professional to ensure that they obtain the desired tax benefits. Tax benefits of investing in 529 plans depend on meeting distinct requirements such as whether an investor’s home state offers state tax or other benefits only available in the home state’s 529 college savings plan. Withdrawals of earnings not used to pay for qualified higher education expenses are subject to an additional 10% penalty. State taxes may also apply.

The MFS 529 Savings Plan is a flexible college investing plan administered by the state of Oregon, acting by and through the Oregon 529 College Savings Board, and is managed by MFS Investment Management®. Depending on your state of residence and the state of residence of the beneficiary, an investment in the MFS 529 Savings Plan may not afford you or your beneficiary state tax or other benefits only available for investments in such state’s qualified tuition program.

Before investing in the MFS 529 Savings Plan, consider the investment objectives, risks, charges, and expenses. For a prospectus containing this and other information, as well as a Participant Agreement, Disclosure Statement, and Expense Supplement, contact your investment professional or view online at mfs.com. Read it carefully.

Contact your financial advisor for more information, or visit mfs.com.

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