

## EDUCATION PLANNING VEHICLES

# Comparing your options

Opening a college savings account is a smart and convenient way to invest in the education of a child, grandchild or other loved one. A Section 529 plan and a Uniform Gifts to Minors Act (UGMA)/Uniform Transfers to Minors Act (UTMA) custodial account are investment vehicles to help you save for future education costs.

## Features, benefits and differences:

### Section 529 plan

A tax-advantaged way to invest for the future education expenses of a designated beneficiary.<sup>1</sup>

### Uniform Gifts to Minors Act (UGMA) and Uniform Transfers to Minors Act (UTMA) custodial account

A taxable account in which a custodian holds money or other property on behalf of a minor pursuant to relevant state laws.

The chart on the following pages is meant to help you compare a Section 529 plan with an UGMA/UTMA custodial account.\* While some of the features and benefits of these vehicles are similar, there are also key differences. The chart includes information on eligibility, contributions, taxation, control of funds, investment options and more.

Deciding which vehicle works best for you depends on your (or your designated beneficiary's) investment goals, risk tolerance, time horizon and liquidity needs.

|   | Section 529 plan  | UGMA/UTMA custodial account   |
|---|---|---|
| <b>Eligibility limits for contributors</b>                        | None.   | None with regard to dollar maximums. However, state law may limit the types of transfers that may be made to the minor.   |
| <b>Maximum beneficiary age for contributions to account</b>       | No age limit.   | Termination age, which may range from 18 to 25, depending on the state law that governs.  |
| <b>Age at which withdrawals generally are required to be made</b> | No age limit.   | No age limit, but the custodian has the responsibility to transfer the assets to the minor upon reaching the termination age.   |
| <b>Minimum contribution to establish an account</b>               | Varies by plan.   | Varies by provider/investment.  |
| <b>Maximum contributions</b>                                      | <ul style="list-style-type: none"> <li>Varies by plan. However, most plans allow contributions in excess of \$300,000 per beneficiary.</li> <li>Federal gift taxes could apply. Under the five-year gift rule, you can take advantage of a gifting provision that allows contributions of up to \$95,000 (\$190,000 for married couples electing to split gifts) per beneficiary in a single five-year period, federal gift tax-free, as long as there are no further gifts to the beneficiary in the same five-year period.<sup>2</sup></li> </ul> | Individuals may contribute \$19,000 (\$38,000 for married couples electing to split gifts) per beneficiary per year without federal gift tax consequences. There are no statutorily imposed maximum contribution amounts. |

\* Merrill has prepared the comparison chart from sources and data we believe to be reliable. The information is general in nature and should not be considered legal or tax advice. This information is provided for general educational purposes only, and you should bear in mind that laws of a particular state and your particular situation may affect the information contained herein. You should consult your tax advisor regarding your specific tax situation. Merrill expressly disclaims any responsibility or liability for any losses or damages arising out of use of the chart.

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Investment products:

|                             |                                |                       |
|-----------------------------|--------------------------------|-----------------------|
| <b>Are Not FDIC Insured</b> | <b>Are Not Bank Guaranteed</b> | <b>May Lose Value</b> |
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|  | Section 529 plan   | UGMA/UTMA custodial account   |
|--|--|---|
| <b>Control of account</b>  | Account owner maintains control.   | Custodian controls the account until minor reaches the termination age. It is the custodian's obligation to use the assets only for the benefit of the minor and to turn the assets over to the minor when they reach the termination age.  |
| <b>Ability to change beneficiaries</b>   | <ul style="list-style-type: none"> <li>• The account owner can change the beneficiary to another member of the same family as the prior beneficiary (as defined in the Internal Revenue Code) without adverse income tax consequences.</li> <li>• If assets from an UGMA/UTMA account are contributed, the custodian may not change the beneficiary, except as permitted by applicable law.</li> <li>• A change of beneficiary could potentially be subject to federal gift tax if the new beneficiary is in a younger generation than the prior beneficiary, or is not a member of the same family as the prior beneficiary.</li> <li>• If the new beneficiary is two or more generations younger than the prior beneficiary, the transfer may be subject to the generation-skipping transfer tax.</li> </ul>   | Assets are considered an irrevocable gift and the beneficiary cannot be changed.  |
| <b>Ability to transfer or roll over assets</b>   | <ul style="list-style-type: none"> <li>• Assets can be transferred or rolled over federal income tax-free to another Section 529 plan for the same beneficiary, or another family member of the beneficiary, once every 12 months. Indirect rollovers must be completed within 60 days.</li> <li>• Assets can be rolled over into an Achieving a Better Life Experience (ABLE) account tax-free. Rollover amounts cannot exceed the ABLE account contribution limit.</li> </ul>  | <ul style="list-style-type: none"> <li>• Assets can be transferred between custodial accounts for the same minor at any time, provided the accounts have the same title. Both must be UGMA (or UTMA), with the same state law governing, same custodian and the same termination age.</li> <li>• Assets may be contributed to a Section 529 plan for the same minor. Because cash must be contributed to Section 529 plans, the custodial account may be subject to a capital gains tax liability as a result of the liquidation of securities in the custodial account.</li> </ul> |
| <b>Ability to roll over assets to a Roth IRA without federal tax implications (state tax treatment may vary)</b> | <p>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:</p> <ul style="list-style-type: none"> <li>• The 529 account has been open for at least 15 years.</li> <li>• The Roth IRA is in the same name as the 529 account beneficiary.</li> <li>• 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.</li> <li>• The rollover is limited to: <ul style="list-style-type: none"> <li>– 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</li> <li>– a lifetime rollover limit of \$35,000 per 529 account beneficiary</li> </ul> </li> </ul> | <p>Assets in a UGMA/UTMA cannot be rolled over into a Roth IRA. While assets in a UGMA/UTMA account can be liquidated and the cash proceeds can subsequently be used to contribute to a traditional or Roth IRA account, any capital gains on the liquidation of the custodial assets would be subject to taxes.</p> <p>Additionally, in order to be eligible to contribute to the Roth IRA, the 529 beneficiary would have to meet the Roth IRA income limits and would have to have annual compensation at least equal to the amount of the contribution.</p>                     |

|                                | Section 529 plan   | UGMA/UTMA custodial account  |
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| <b>Federal income taxation</b> | <ul style="list-style-type: none"> <li>Earnings generally grow tax-free. Withdrawals, including any earnings, are federal (and possibly state and/or local) income tax-free as long as the withdrawals are used for qualified higher education expenses.<sup>1</sup></li> <li>Withdrawals not used to pay for qualified higher education expenses as defined in the Internal Revenue Code are considered nonqualified withdrawals.</li> <li>The earnings portion of withdrawals for nonqualified expenses may be 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 does not apply to withdrawals upon the beneficiary's death, disability, military academy attendance or receipt of a scholarship, as long as the amount withdrawn does not exceed the amount of such scholarship.</li> <li>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.</li> <li>Since any earnings generally accumulate tax-free, there may be no federal tax returns to file.</li> </ul>  | <ul style="list-style-type: none"> <li>The first \$1,350 of a child's income generally is tax-exempt, the next \$1,350 of unearned income generally is taxed at the child's tax rate, and unearned income over \$2,700 generally is taxed at the child's parents' tax rate if the child is under age 18, or the child is age 18 and does not have earned income that is more than half of his or her financial support, or is a full-time student that is at least age 19 and under age 24 who does not have earned income that is more than half of his or her financial support if at least one parent is living at the end of the tax year and the child is not filing a joint return for the tax year.</li> <li>Capital gains taxes are payable on any realized gains upon the sale of securities in the account.</li> <li>If annual income exceeds \$1,350, the income must be reported on a federal tax return.</li> </ul> |
| <b>Use of assets</b>           | <p>Withdrawals are tax-free when used to pay for qualified higher education expenses,<sup>1</sup> including:</p> <ul style="list-style-type: none"> <li>Tuition and fees.</li> <li>Certain room and board expenses.</li> <li>Books, supplies and equipment required for the enrollment or attendance of the beneficiary at an eligible educational institution.</li> <li>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.</li> <li>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.</li> <li>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.</li> <li>Expenses required for the participation of a designated beneficiary in a registered and certified apprenticeship program.</li> <li>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.<sup>3</sup></li> </ul> | <p>No restriction on the use of the assets except that they must be used for the benefit of the named minor. At the termination age, the beneficiary can withdraw the assets for any purpose, not just education.</p>  |
| <b>Investment options</b>      | <ul style="list-style-type: none"> <li>Varies by plan. Most plans offer investment portfolios consisting of underlying mutual funds or individual mutual fund options.</li> <li>Investment options typically range from age-based options, in which the asset allocation mix adjusts based on the age of the beneficiary, to fixed allocation portfolios that range from conservative to aggressive.</li> </ul>  | <p>No restrictions other than those imposed by relevant state UGMA/UTMA laws, which typically state that a custodian is subject to the "prudent person rule" but is not limited by any other statute restricting investments by fiduciaries.</p>   |

|  | Section 529 plan   | UGMA/UTMA custodial account  |
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| Federal financial aid treatment <sup>4</sup> | <p><b>More favorable</b></p> <ul style="list-style-type: none"> <li>• If opened by the parent of the beneficiary, the assets will be treated as the parent's asset, which is currently weighted at 5.6% for the purpose of the federal financial aid calculation.</li> <li>• Qualified withdrawals are not currently considered income to the parent or student in the federal financial aid calculation.</li> </ul> | <p><b>Less favorable</b></p> <ul style="list-style-type: none"> <li>• Treated as the beneficiary's asset, which is weighted at 20% for the purpose of the federal financial aid calculation.</li> <li>• However, if the UGMA/UTMA assets are liquidated and the proceeds contributed to a Section 529 account, the assets will not currently be treated as the beneficiary's asset for federal financial aid.</li> </ul> |

**For more information on Section 529 plans and UGMA/UTMA custodial accounts, and for help in deciding which vehicle best fits your (and your designated beneficiary's) goals, contact your Merrill Wealth Management Advisor.**

**Before you invest in a Section 529 plan, request the plan's official statement from your Merrill 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 designated 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.**

**Merrill, its affiliates, and financial advisors do not provide legal, tax, or accounting advice. You should consult your legal and/or tax advisors before making any financial decisions.**

<sup>1</sup> 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.

<sup>2</sup> Contributions during 2025 between \$19,000 and \$95,000 (\$38,000 and \$190,000 for married couples electing to split gifts) made in one year can be prorated over a five-year period without subjecting you to federal gift tax or reducing your federal unified estate and gift tax credit. If you contribute less than the \$95,000 (\$190,000 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 \$19,000 (\$38,000 for married couples electing to split gifts) per year. Federal 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 \$19,000 and \$95,000 (\$38,000 and \$190,000 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 federal estate tax purposes. Please consult your tax and/or legal advisor for guidance.

<sup>3</sup> The beneficiary must be attending an eligible educational institution at least half time for room and board to be considered an eligible expense.

<sup>4</sup> 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 information, please go to the Department of Education's website at [www.ed.gov](http://www.ed.gov).