Section 529 plans at Merrill

Important information for clients

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Overview of Section 529 plans

Section 529 plans are named after Section 529 of the Internal Revenue Code ("Code"), which authorizes states to offer these tax-advantaged vehicles that help families save for the expenses of higher education. States may offer two types of Section 529 plans: prepaid college tuition plans and college savings plans. A prepaid tuition plan allows you to purchase future tuition at current rates. Please note that prepaid tuition plans are not offered through Merrill, and that the information provided on the following pages relates only to college savings plans (Section 529 plans).

Section 529 plans are typically managed by an investment management firm, such as Merrill Lynch, Pierce, Fenner & Smith Incorporated (Merrill). Although all Section 529 plans are treated identically under federal tax law, there may be certain state tax or other state benefits, such as financial aid, scholarship funds and protection from creditors that are only available for investing in your or your beneficiary's home state's Section 529 plan.

Before you invest in a Section 529 plan, you should request the plan's official statement from your financial advisor and read it carefully. The official statement contains more complete information, including investment objectives, charges, expenses and risks of investing in the plan, all of which you should carefully consider and fully understand before investing.

NextGen 529™ is a Section 529 plan offered to clients regardless of state residency, sponsored by the state of Maine and administered by the Finance Authority of Maine. Merrill is the program manager, underwriter and distributor of the plan. Please see the section titled "Compensation paid to Merrill" on pages 6 and 7 for more information related to the plan. You should consult with your Merrill advisor, as well as your tax advisor, to determine which Section 529 plan is appropriate for you.

Section 529 plans provide a tax-advantaged way to invest for future education expenses. Section 529 plans are a great way for parents, grandparents, or even friends and other family members to invest for a child's primary, secondary or higher education. Subject to certain limitations and restrictions, assets including any earnings in a Section 529 plan can be used to pay for a variety of "qualified higher education expenses," which generally include tuition and fees, books, required supplies and equipment, room and board (if the designated beneficiary attends school at least half time), the purchase of computers or peripheral equipment (as defined in Section 168(i)(2)(B) of the Code), computer software (as defined in Section 197(e)(3)(B) of the Code), or internet access and related services, if such equipment, software, or services are used primarily by the designated beneficiary while enrolled at an eligible educational institution.

Other acceptable expenses include payments for special needs beneficiaries at any accredited school, including public or private universities, graduate schools, community colleges and accredited vocational and technical schools.[1]

In addition, for distributions taken after December 31, 2018, qualified higher education expenses now include:

- Expenses for fees, books, supplies and equipment that are required for the participation of a designated beneficiary in an apprenticeship program (registered and certified with the Secretary of Labor under the National Apprenticeship Act).
- Amounts paid as principal or interest on any qualified education loans for a designated beneficiary or the sibling of a designated beneficiary, up to a lifetime maximum of $10,000 per individual (the lifetime maximum is applied separately for the sibling's loans versus the designated beneficiary's loans). Such repayments may impact student loan interest deductibility. State tax treatment may vary.

You can also take federal income tax-free distributions from a Section 529 account of 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. State tax treatment may vary.

Section 529 plans are generally treated more favorably for federal financial aid purposes than other investment vehicles[2] and may provide you with significant tax advantages:

- Your account has the potential to grow free from federal (and in most cases, state and/or local) income taxes, allowing your account assets to potentially accumulate faster than if you invested in a taxable investment vehicle.
- 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.[1]

Factors to consider before investing in a Section 529 plan

The following are certain factors to consider before investing in a Section 529 plan, however they aren't the only considerations you should take into account. Prior to investing in a Section 529 plan, you should read the plan's program description carefully and consult with your Merrill advisor and your tax advisor.

- If you make a withdrawal from your account other than to pay for your designated beneficiary's qualified higher education expenses, the earnings portion of your withdrawal, if any, will 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.

- You can make contributions up to the annual federal gift tax limit of $15,000 for individuals ($30,000 for married couples electing to split gifts) without incurring federal gift taxes. You may also contribute up to five years' worth of gifts of $75,000 for individuals ($150,000 for married couples electing to split gifts) for each designated beneficiary in one year without incurring federal gift taxes, as long as no additional gifts are made to the designated beneficiary within the five-year period.[3]

State tax considerations

You may be entitled to certain state tax or other state benefits for investing in your home state's Section 529 plan, such as a state tax deduction on contributions, deferral of state income taxes, tax-free withdrawals, matching grants, financial aid, scholarship funds and protections from creditors. However, you may not be eligible for such benefits if you invest in a Section 529 plan offered by a state other than your state of residence, or, in some cases, the state of residence of your designated beneficiary. In addition, certain states may seek to recapture all or part of previously claimed tax benefits if the proceeds of your account are not used to pay for qualified higher education expenses, or if the assets are transferred to another state's Section 529 plan. As a result, you should carefully consider the state tax implications of any Section 529 plan, particularly of the plans offered by your home state or the home state of your designated beneficiary.

Investment options

Contributions to a Section 529 plan are invested in the portfolios selected when establishing the account. Each portfolio typically invests in one or more underlying mutual funds and/or Exchange Traded Funds (ETFs), although some portfolios may invest in other types of financial instruments. The portfolios' underlying investments will have different investment objectives and risks, and may be sponsored and managed by different investment firms. Portfolio performance will be based on the performance of the portfolios' underlying investments.

Most Section 529 plans offer a wide range of portfolio options in order to help meet a variety of investment needs:

- **Age-based portfolios:** These portfolios are invested in a manner that seeks to balance risk and expected returns with the time remaining until a designated beneficiary is expected to incur education expenses. As the designated beneficiary ages, the underlying investments in age-based portfolios automatically shift from more aggressive equity funds to more conservative fixed-income funds, including money market securities.[4]
- **Diversified portfolios:** These portfolios are invested in multiple underlying investments and seek to maintain consistent investment and risk profiles.
- **Single fund portfolios:** These portfolios are invested in only one underlying investment or financial instrument.

When evaluating the portfolios under a Section 529 plan, you should consider several factors, including your financial situation, investment goals, liquidity needs, risk tolerance, the age of your designated beneficiary or investment time horizon before taking distributions.

Section 529 plans are not guaranteed by any state or federal agency, nor by Merrill or any of its affiliates, and the value of your investment will fluctuate based on the performance of the investment options you select. Please remember there is always the potential of losing money when you invest in securities. Diversification and asset allocation do not ensure profit or protect against loss in declining markets.

Fees, expenses and unit class differences

Section 529 plans are generally subject to management and administration fees, and may also be subject to sales charges, and enrollment, maintenance or transaction fees. In addition, investors in Section 529 plans bear a portion of the expenses incurred by the portfolios' underlying investments. The plan's program description contains specific information about any associated fees and expenses, as well as the Merrill Unit Class Disclosure and Terms & Conditions, if investing in a Section 529 Omnibus plan. You should carefully consider a plan's fees and expenses before you invest.

Section 529 plans offer portfolios in different "unit classes" which offer the same investment options but with different fee and expense structures. The availability of certain unit classes offered by a Section 529 plan will vary depending on how the plan is offered, either self-directed by you or through a financial advisor. For example, no-load unit classes are offered through self-directed Section 529 plans, while unit classes, which impose sales charges, are typically offered by advisor-sold Section 529 plans. You may change how future deposits get invested at any time.

Merrill offers certain Section 529 plans nationally (Omnibus plans) and State 529 plans that are only offered to residents of the state (and who may be able to take a state tax income tax deduction). On the following page is a brief description of the Class A and Class C units generally offered through advisor-sold Section 529 plan portfolios. Different Class A and Class C unit rules apply to Section 529 Omnibus plans. For more information about the unit classes of a particular Section 529 plan, review the plan's program description as well as the Merrill Unit Class

Disclosure and Terms & Conditions, if investing in a Section 529 Omnibus plan. Additional information is also provided in the "Section 529 Omnibus plans" section on this page.

Class A units: Often referred to as "front-end" load units and typically include an upfront sales charge. When you contribute money to your account, a sales charge will be deducted from the contribution, and the net amount of the contribution will be invested in the portfolios selected. Although Class A units are subject to a front-end sales charge, the annual asset-based fees for Class A units are typically lower than those for Class C units.

- Depending on the terms of the Section 529 plan and your circumstances, you may be eligible for a waiver or reduced front-end sales charge associated with Class A units. For example, you may be eligible for a waiver or reduction if you have multiple accounts with the 529 program, or certain Section 529 plans offer waivers if you invest in the program manager's mutual funds outside of the plan. Moreover, you may be eligible for "breakpoint" discounts based on the size of your investment in a Section 529 plan. The conditions under which these discounts and waivers are available varies for Section 529 plans and/or program managers. Breakpoint discounts often begin with investments in a Section 529 plan of at least $50,000 and increase as the size of your investment increases.
- Generally, Class A units are appropriate for investors who have an intermediate to longer-term investment time horizon or who can take advantage of breakpoint discounts. Your Merrill advisor can assist you in determining whether Class A units are appropriate for you and whether you are eligible for any discounts or waivers, including breakpoint discounts. However, it's your responsibility to notify your Merrill advisor and the plan's program manager of any investments you hold that may affect your eligibility for discounts or waivers.

Class C units: Often referred to as "level-load" units and typically do not impose a front-end sales charge, so the full value of your contributions will be invested in the investment options that you selected.

- Class C units usually do impose a Contingent Deferred Sales Charge (CDSC) if you fully or partially withdraw a contribution, typically within one year of making the contribution. The CDSC is deducted from your withdrawal or from your account. In addition, the annual ongoing asset-based fees for Class C units are typically higher than those for Class A units.
- Generally, because of their higher ongoing asset-based fees, Class C units are appropriate for investors who intend to hold their investments over a short to intermediate investment time horizon. Therefore, Class C units may be more appropriate for investors who anticipate being invested in the Section 529 plan for less than a certain period of years and who are not entitled to a sales charge reduction on Class A units because the aggregate eligible plan investments do not exceed certain "breakpoint" thresholds defined by the plan. Your Merrill advisor can assist you in determining whether Class C units are appropriate for you.

Class C convertible units: Offered by some Section 529 plans and which will convert to Class A units after a certain number of years (determined by the Section 529 program) with no sales charge. Although these units have higher ongoing asset-based fees in the first few years, because they convert to Class A units without a sales charge, the overall fees paid over the investment time horizon will typically be similar to the fees of purchasing Class A units and paying the sales charge. As a result, Class C convertible units are generally appropriate regardless of your time horizon, unless you are eligible to purchase Class A units without a sales charge. Please refer to the plan's program description to determine if Class C convertible units are available.

Section 529 Omnibus plans

Effective June 30, 2020, for Omnibus plans, Merrill offers a standardized pricing model which eliminates the need for investors to pay an upfront sales charge. This pricing model generally results in investors incurring similar or lower overall investment fees than referenced in the plan's program description document.

Under the omnibus standardized pricing model, if an investor's eligible Section 529 assets are less than $250,000 and they do not meet other eligibility criteria, contributions will be invested in Class C units that will convert to Class A units, without a sales charge, after four years from purchase. If an investor's eligible Section 529 assets are $250,000 or more, contributions will be invested in Class A units without a sales charge. A redemption of Class A and Class C units within 12 months of purchase may be subject to a deferred contingent sales charge. Please refer to the Merrill Unit Class Disclosure and Terms & Conditions for more information and before investing in a Section 529 Omnibus plan.

Additional Section 529 plan features

You maintain control. As the account owner you maintain control of your account.

Contribution limits. As Section 529 plans were created to help pay for the rising cost of college, most plans offer high contribution limits — most in excess of $450,000. You can contribute annually to a Section 529 plan account up to the current federal annual gift tax exclusion limit of $15,000 per year ($30,000 for married couples electing to split gifts) without incurring federal gift taxes or a generation-skipping transfer tax. Under the five-year gifting provision, you can contribute up to $75,000 ($150,000 for married couples electing to split gifts) per beneficiary in a single year, gift tax-free, as long as there are no further gifts to the beneficiary during that year or the following four years.[3]

Beneficiary changes. You have the flexibility to change the designated beneficiary on your account, as often as you like, to an eligible family member of the original beneficiary.[5]

Investment changes. Contributions to your Section 529 plan are invested in the portfolios you select that are offered by the plan. Periodically, you may decide to reallocate your account assets among different investment options. You can exchange existing assets twice per calendar year or upon the change of a designated beneficiary. You may change how future contributions are invested at any time.

Purchasing a Section 529 plan

Section 529 plans may be offered directly to investors (self-directed) or may be offered through a financial advisor (advisor-sold). The cost of investing in an advisor-sold plan is generally higher than the cost of investing in a self-directed plan due to the compensation that is paid to the financial advisor.

Compensation paid to Merrill

Merrill and its affiliates are compensated in multiple ways in connection with the sale and management of Section 529 plans. Each form of compensation that Merrill or its affiliates may receive is discussed briefly on this page and the following page. The plan's program description, and for omnibus plans, the Merrill Unit Class Disclosure and Terms & Conditions (for Section 529 Omnibus plans) will contain more detail about the types of compensation paid.

Compensation from the sale of Section 529 plans
When you purchase a Section 529 plan through Merrill, the compensation paid to Merrill depends on which plan you purchase, the unit class you purchase and whether you purchased the plan through a Merrill Edge self-directed account or through a Merrill advisor or Merrill Edge Financial Solutions Advisor. For Class A units, all or a portion of the front-end sales charge, if applicable, is paid to Merrill and a portion of that amount is paid to your financial advisor. For Class C units, there is no up-front sales charge, but the plan's program manager pays up-front compensation of no more than 1.00% of the invested amount to your financial advisor. If you liquidate and withdraw the proceeds of Class C units within one year of purchase, the sale of such units may be subject to a 1% Contingent Deferred Sales Charge (CDSC) paid to the plan's program manager. For both Class A and Class C units, a portion of the annual asset-based fee is paid to Merrill and a portion of this amount is paid to your financial advisor. Merrill's sales representatives may receive a larger initial commission for selling Class A units, which include a "front-end" sales charge, than selling Class C units, which include a Contingent Deferred Sales Charge (CDSC). Merrill advisors may clerically assist you in opening a NextGen 529 Client Direct Series account and may be compensated by Merrill for doing so. If you have any questions regarding the sales charges for your investment in a Section 529 plan offered through Merrill, please refer to the plan's program description as well as the Merrill Unit Class Disclosure and Terms & Conditions (if applicable).

Additional compensation from the sale of Section 529 plans (not including NextGen 529)

In addition to the compensation outlined above in connection with clients purchasing and holding Section 529 plans, Merrill and its affiliates provide other services for which they may receive additional compensation from the plan's program managers or their affiliates. This compensation is often, but not always, disclosed in detail in the plan's program description or underlying fund's prospectus, summary prospectus, statement of additional information or website.

Merrill makes available to its clients units of those Section 529 plans whose program managers have entered into contractual arrangements with Merrill that generally include the payment of one or more of the fees described below and on the following page. Program managers that do not enter into these arrangements with Merrill are generally not offered to clients. The following fees do not purchase placement on any preferred lists or any special positioning of the Section 529 plan by Merrill and financial advisors are not compensated based on these fees. However, due to connectivity limitations, some Section 529 plans may only be offered to residents of the state sponsoring the plan and where a state income tax deduction is available. These fees are used to cover the types of services outlined on the following page and are not passed on to financial advisors or their managers as compensation.

- **Sub-accounting related services.** Merrill has "Omnibus Account" agreements with certain Section 529 plans and provides various sub-accounting and other related administrative services with respect to portfolio positions held in a Section 529 account at Merrill. These services include, for example, aggregating and processing purchases, redemptions, exchanges, dividend reinvestment, consolidated account statements, tax reporting, and other recordkeeping and reporting services. As compensation for these services, Merrill or an affiliate receives from all the plan's program managers with unit classes that charge sales loads either up to $19 annually for each position or up to 0.15% annually of the value of unit classes held in a client's account at Merrill, depending on the program manager's election.
- **Marketing services and support.** Merrill provides a variety of distribution, marketing services and other support to program managers of Section 529 plans available through Merrill. These services include, but are not limited to the provision of: an experienced support desk for financial advisors, Financial Solutions Advisors or Investment Center Representatives to answer questions regarding the particular Section 529 plan; work stations that include information, announcements, data and tools relating to their Section 529 plans; review and communications of features and changes related to the Section 529 plan; guidance and support that is intended to assist program managers with strategies that are aligned with Merrill's investment themes and goals; making financial advisors or other employees available for education regarding their Section 529 plans; sales-related reports and other information; and branch office support, including phones, computers, conference rooms, as well as facilities and personnel support for program descriptions, related prospectuses, and promotional and other materials relating to their Section 529 plan.

In addition to the front-end and back-end sales charge fees discussed above, Merrill receives compensation from some Section 529 plan program managers for its distribution, marketing services and other support of generally up to 0.15% on a portion of Section 529 plan purchases and generally up to 0.10% annually on a portion of Section 529 plan assets. The amount of compensation Merrill receives from program managers for marketing services and support may exceed the cost of the services provided in any given year.

Additional compensation to Merrill from the management of NextGen 529

Merrill is currently the Program Manager for NextGen 529, and as such, Merrill is entitled to receive asset-based management fees. The management fees are calculated based on the assets of the plan's investment portfolios, and the management fee associated with each portfolio may differ. Merrill may pay a portion of such management fees or other compensation to an affiliate that acts as the portfolio servicing agent. The Finance Authority of Maine (FAME) has authorized Merrill and/or its affiliates, with prior notice to FAME, to receive certain payments from (i) the Investment Sub-Advisors (Sub-Advisors), (ii) from Portfolio Investments or (iii) the providers of the Principal Plus Portfolio Investments for a variety of services with respect to Program assets invested in the Underlying Funds or Principal Plus Portfolio Investments. Merrill provides various sub-transfer agency and other related administrative services with respect to Underlying Funds positions. These services include, for example, processing purchases, redemptions, exchanges, dividend reinvestments, consolidated account statements, tax reporting and other recordkeeping Merrill also provides a variety of marketing services and other support to Sub-Advisors. These services include, but are not limited to, review and implementation of features of Underlying Funds; strategic planning support to assist Sub-Advisors; making available employees for education regarding Underlying Funds; and sales related reports and other information. In consideration for these services, Merrill receives compensation from Sub-Advisors, Portfolio Investments or the providers of the Principal Plus Portfolio Investments of up to 0.30% of the average annual amount invested by the Portfolios in the Portfolio Investments. Because different Sub-Advisors and Portfolio Investments may be subject to different fee arrangements, Merrill has agreed to advise FAME in writing of each specific fee arrangement prior to the initiation or amendment thereof and to provide FAME with such additional information as either may reasonably request with respect to any such arrangement. Merrill is not the Program Manager for any other Section 529 plan offered through Merrill advisors.

Capitalized terms used in this section are defined in the NextGen 529 Program Description.

This material does not take into account a client's particular investment objectives, financial situations or needs and is not intended as a recommendation, offer or solicitation for the purchase or sale of any security or investment strategy.

Merrill offers a broad range of brokerage, investment advisory and other services. There are important differences between brokerage and investment advisory services, including the type of advice and assistance provided, the fees charged, and the rights and obligations of the parties. It is important to understand the difference particularly when determining which service or services to select.

For more information about these services and their differences, speak with your Merrill advisor.

Useful resources

FINRA College Savings Calculator: www.tools.finra.org/college_savings/

College Savings Plan Network (CSPN): www.collegesavings.org

Savingforcollege.com: www.savingforcollege.com

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

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] 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. The beneficiary must be attending an eligible educational institution at least half time for room and board to be considered a qualified higher education expense, subject to limitations. Institutions must be eligible to participate in federal student financial aid programs. 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. For distributions taken after December 31, 2018, qualified higher education expenses now include expenses for fees, books, supplies and equipment required for the participation of a designated 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 designated beneficiary or sibling of the designated beneficiary, up to a lifetime maximum of $10,000 per individual. Distributions with respect to the loans of a sibling of the designated beneficiary will count toward the lifetime limit of the sibling, not the designated 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.

[2] 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.

[3] Contributions during 2020 between $15,000 and $75,000 ($30,000 and $150,000 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 $75,000 ($150,000 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 $15,000 ($30,000 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 $15,000 and $75,000 ($30,000 and $150,000 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.

[4] An investment in a money market fund is not a bank deposit, and is not insured or guaranteed by Bank of America, N.A., Merrill or any bank or affiliate of Merrill, the Federal Deposit Insurance Corporation (FDIC) or any other government agency.

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

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