Investing in your child’s future
Destination college and beyond

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?
When you think about your child’s education, start with the big picture

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 he or she pursue advanced degrees? Will your child help pay for his or her own 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 financial advisor is committed to understanding your family’s education needs and what matters most to you. With your specific goals in mind, he or she 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 all 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
College costs are rising

Which grows faster, your child or the cost of college? The average cost of college could rise by as much as 6 percent or more annually in the coming years, exceeding the rate of inflation. To pay for these costs, families are often drawing upon a wide range of resources, including scholarships and grants, parent income and borrowing.

While the cost of college continues to go up, so does the earnings opportunity for college graduates. According to a 2018 survey conducted by the U.S. Bureau of Labor Statistics, a person with a bachelor’s degree earned on average approximately 67% more than a typical high school graduate. Someone with an advanced degree made approximately 21% more than someone with a bachelor’s degree.

Invest in your child’s future and start investing for college as early as possible. It’s never too early, or too late, to begin. Even if your child is older, there are ways to increase your saving and investing based on a shorter time frame.

FOUR-YEAR COST OF COLLEGE IS GOING UP

Projected four-year costs at an in-state public and a private college today and in 18 years. Costs projected to escalate at 6% per year.

Source: collegeboard.org, College Cost Calculator. The calculation assumes cost one year from January 2019.
Exploring your education funding options

When you’re investing for future education expenses, traditional taxable investments may not be the most effective way to meet your goals. You may want to consider tax-advantaged education funding options, such as a Section 529 plan or a Uniform Gifts to Minors Act (UGMA)/Uniform Transfers to Minors Act (UTMA) custodial account. Or, depending on your situation, you may find using a combination of these options can help you meet your education funding goals.

**Section 529 Plans**

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. There are no income or age limits on contributions. Qualified higher education expenses include tuition and fees, room and board, books, required supplies and equipment, computers or peripheral equipment, computer software or Internet access and related services. 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.

You can take a federally tax-free distribution from a 529 of up to $10,000 per calendar year per beneficiary to help pay for tuition 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 savings vehicles and they provide significant tax advantages, such as:

- Withdrawals, including any earnings, are federal (and possibly state) income tax free as long as the withdrawals are used for qualified higher education expenses.
- You can make annual contributions of up to $15,000 ($30,000 for a married couple filing jointly) without incurring a federal gift tax in 2019. Contributions are considered completed gifts and are excluded from your estate for federal estate tax purposes.
- Under a five-year gifting provision, you can make account contributions of $75,000 ($150,000 for a married couple filing jointly) for each beneficiary in one year, as long as no additional contributions or other gifts are made during the five-year period. 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.

Most Section 529 plans offer a wide range of investment choices, including age-based investment 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.

Before you invest in a Section 529 plan, request the plan’s official statement from your Merrill Lynch 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, 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 Section 529 plan. Section 529 plans are not guaranteed by any state or federal agency.
Uniform Gifts to Minors Act/Uniform Transfers to Minors Act Custodial Accounts

A Uniform Gifts to Minors Act (UGMA)/Uniform Transfers to Minors Act (UTMA) custodial account is a taxable account that has no restrictions other than those imposed by the relevant state UGMA/UTMA laws. They can be funded with cash or securities.

UGMA/UTMA account assets can be used for any purpose, as long as they benefit the minor for whose benefit they are held. UGMA/UTMA assets are irrevocable, and the beneficiary may not be changed. The account beneficiary also gains control of the assets at the statutory vesting age, at which point the custodian no longer controls how the funds may be used.

Because UGMA/UTMA accounts offer limited tax savings and control, Section 529 plans generally are better options when investing for higher education costs. However, UGMA/UTMA accounts still may be appropriate if you’re saving for private elementary or secondary school costs or for expenses such as a car, a home down payment or a wedding.

UGMA/UTMA accounts also qualify for the 2019 federal annual gift-tax exclusion of $15,000 for individuals or $30,000 for married couples filing jointly. In 2019, the first $1,100 of a child’s income generally is tax-exempt, the next $1,100 of unearned income generally is taxed at the child’s tax rate, and unearned income over $2,200 generally is taxed at the parent’s 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.
For your child or grandchild, education is a lifelong asset—one that will appreciate in value and continue to pay dividends over time. The right education can help young people hone their critical thinking skills while gaining new perspectives on the world. Education can open new doors for students and enrich their experiences over a lifetime.

To begin planning for a child’s education, contact your Merrill Lynch financial advisor for a consultation and analysis of your personal situation. Working together, you and your financial advisor can develop a strategy to help you reach your goals for your child’s future.
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. Neither Merrill Lynch nor its financial advisors provide tax, accounting or legal advice. You should review any planned financial transactions or arrangements that may have tax, accounting or legal implications with your personal professional advisor.


3 Source: collegeboard.org, College Cost Calculator. The calculation assumes cost one year from January 2018.

4 To be eligible for the favorable tax treatment afforded to any earnings portion of withdrawals from Section 529 accounts, such withdrawals must be for “qualified higher education expenses,” as defined in the Internal Revenue Code. Any earnings withdrawn that are not used for such expenses are subject to federal income tax and may be subject to a 10% additional federal tax, as well as applicable state and local income taxes. For distributions after December 31, 2017 qualified higher education expenses include tuition in connection with enrollment or attendance at an elementary or secondary public, private, or religious school. These distributions are limited to $10,000 per calendar year, across all 529 accounts for the same beneficiary. State tax treatment may vary.

5 The beneficiary must be attending an accredited institution at least half time for room and board to be considered an eligible expense.

6 Institutions must be eligible to participate in federal student financial aid programs. Some foreign institutions are also eligible.

7 This is based on the 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 Web site at www.ed.gov.

8 Contributions during 2018 between $15,000 and $75,000 ($30,000 and $150,000 for married couples filing jointly) 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 filing jointly) 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 filing jointly) 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 filing jointly) 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 his or her estate for estate tax purposes.

9 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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