Frequently Asked Questions (FAQs) about the Massachusetts 529 Plan/U.Fund

THE BASICS OF COLLEGE SAVINGS ACCOUNTS

1. Why can't I just borrow money for college?

Saving even a little can be more cost effective than borrowing. While most families combine some level of saving and borrowing when paying for college, putting aside money early and often is a good way for you to build your savings. Saving and investing even a little each month can be more financially prudent than borrowing money and paying interest on it.

2. What is a 529 Plan?

529 plans are flexible, tax-advantaged accounts designed specifically for college savings. They are offered by individual states; however, you do not have to be a resident of a particular state to invest in that state's plan. For those saving with a 529 plan, when the child reaches college age, withdrawals used for qualified higher education expenses are federal income tax-free, and in many cases state income tax-free.

3. What is the U.Fund?

U.Fund is the 529 college savings plan for Massachusetts. It is run by the Massachusetts Educational Financing Authority (MEFA), in conjunction with Fidelity Investments**.** Qualified withdrawals from a U.Fund account are federal and state income tax-free**.**

4. Will saving in a 529 affect my child's financial aid?

Parental assets are weighed less heavily than student assets in the formula for determining the Expected Family Contribution (EFC) in your financial aid award. 529 assets are considered assets of the parent in the EFC calculation, whereas many other savings vehicles are viewed as student assets. Therefore 529s have a relatively small effect on Federal financial aid eligibility, especially in comparison to many other savings options.

Additionally, the formulas for determining financial aid count income far more heavily than savings, so the difference in financial aid due to 529 accounts is usually not substantial. Furthermore, a family that saves will have the funds necessary to meet their expected contribution, while a family that does not save may have to borrow -- with interest charges more than making up for the smaller expected contribution.

OPENING AND SAVING IN A 529 ACCOUNT

5. Who can open a U.Fund Account?

To open an account at one of the ECPI workshops, the Participant (i.e. parent or guardian) must have a social security number (SSN) and be able to speak and read English.

Please note that the person who opens a U.Fund account does not need to be related to the beneficiary (i.e. the child). That person could be a family member, friend, or neighbor.

6. Who can invest in the U.Fund?

Any number of people can contribute to your U.Fund account, but total contributions cannot exceed $300,000 for the same beneficiary.

7. How much do I need to open the account?

Accounts can be opened with as little as $50 or $15 monthly automatic deposit.

8. **Who can be the designated beneficiary of an account?**
   The beneficiary (i.e. the child) must be a U.S. citizen and have a valid SSN and legal U.S. address. If the child does not have a SSN, unfortunately, they will not be able to participate in the ECPI study nor can they be named as the beneficiary to any 529 college savings account.

9. **I have more than one child. Can I open more than one 529 account?**
   Each account may have only one designated beneficiary, but you may open as many accounts for as many different beneficiaries as you want. If you have more than one child, you may want to open more than one account.

10. **Can I change the designated beneficiary?**
    You can change the designated beneficiary on your account provided that the new designated beneficiary is an eligible Member of the Family of the former designated beneficiary.

11. **What are the fees and expenses?**
    There is no annual account fee. For the FDIC-Insured interest-bearing account, total annual asset based fees will range between 0.05%- 0.50% of annual net assets. Please contact Fidelity at 800-544-2776 for more information.

12. **If I live in public housing or have a Section 8 voucher, can I still save in a 529?**
    There are no asset limits for public housing and therefore, your U.Fund account will not affect your public housing benefits. In other words, you will not be denied public housing because of the value of money you own in savings accounts, such as U.Fund or other 529 plans.

13. **What happens to my other government benefits, like food stamps, SSI or Medicaid if I save in a 529 account?**
    - ***Food Stamps***: As of 2008, 529s are no longer counted in determining eligibility for food stamps. Saving in a 529 college savings plan will therefore not affect your eligibility.
    - ***SSI***: Any money held in 529 college savings plans counts towards the program's asset limit of $2,000.
    - ***TANF***: In Massachusetts, any money held in 529 college savings plans counts towards the program's asset limit of $2,500.
    - ***Medicaid/CHIP***: Any money held in 529 college savings plans will have no impact on eligibility for Medicaid/CHIP.

SPENDING THE COLLEGE SAVINGS

14. **Do I have to use the money at a college or university in Massachusetts?**
    No, savings can be used nationwide at any eligible public or private college, university, vocational or trade school, or eligible foreign institution.

15. **What expenses can I use the money for?**
    529 funds can be used for tuition, books, room and board, and other qualified higher education expenses.

16. **How and when can I take money out of the account?**
    The account owner, typically the parent, controls the assets throughout the duration of the account holdings. And, the account owner decides when and how the money is withdrawn.

    You can always withdraw money from your 529 account. However; withdrawals for non-qualified expenses will incur federal income tax and 10% federal penalty tax on interest earned. You have several ways to withdraw money from your 529 account:

1. Pay college bills online by enrolling in *Fidelity BillPay for 529 Accounts*
2. Call a Fidelity representative at 800-544-1914
3. Complete the *College Investing Plan Distribution* form

Payments made to recipients other than the account beneficiary, college, or university, or tuition payment service will be reported as such on Form 1099-Q for tax reporting purposes. Additional documentation (college invoice, statement, receipts) may be required by the IRS to verify that such payments are qualified.

17. What if my child earns a scholarship?

There are several things you can do:

- You can use your funds to cover eligible items like room and board, books and other supplies that some scholarships don't cover.
- You can change the beneficiary to another family member, or even yourself.
- Simply leave the funds in the account for use for other eligible higher education expenses at a later time.
- Or, you can withdraw the funds from your account up to the amount of the scholarship without penalty. However, other income taxes may still apply.

18. What happens if my child doesn't go to college?

U.Fund offers significant flexibility should the designated beneficiary (student) decide not to attend college. You have several options:

- You can change the beneficiary to another family member of the original beneficiary, or even yourself.
- You can leave the funds in the account to be used at a later date, since there are no time requirements to use the funds.
- Or, you can withdraw the funds, subject to the tax consequences for non-qualified withdrawals.

USING THE ACCOUNT

19. How do I choose my investments?

Fidelity offers a wide range of investment options for the savings in your U.Fund account. These range from an FDIC-Insured interest-bearing account, to an Age-Based Strategy, which includes a Portfolio that automatically reallocates as your child approaches college age, to an Actively Managed Fund Portfolio, to a more risky Index Fund Portfolio. Each Portfolio invests in Fidelity Investment mutual funds and is managed by Strategic Advisers, Inc., a registered investment adviser and Fidelity Investment company.

You choose from the Mutual Fund Portfolios offered, but not the individual securities. The IRS does not allow a participant to have direct or indirect control over the investments in a 529 plan. The 529 Portfolios are invested in a combination of mutual funds. To see a list of the underlying mutual funds that make up each Portfolio, please review the U.Fund Fact Kit.

20. Can I change how my account is invested?

Yes. New deposits can be made into any of the Portfolios available in the U.Fund College Investing Plan. You may also reallocate your contributions and earnings among Portfolios once each calendar year and upon a change in the designated beneficiary of the account.

21. After I open my account today, how can I build my savings?

You have many options:

- Use Direct Deposit, either from payroll or your bank account
- Save a percentage of your tax refund each year
- Encourage your children to save their gift or work money
- Ask family and friends to give money for holidays and birthdays
- Enroll in a ‘Matched Savings Program,” also known as an IDA program (www.massassets.org)
- If you are in Section 8 or public housing, ask your housing authority if they have an FSS program to help you save part of your rent
- If you have a 3rd, 4th, or 5th grader, have them participate in MEFA’s annual art competition and compete for up to $5000 in prizes.

22. Could you tell me more about the Automatic Contribution Plan?

Research suggests that the best way to save for college is small amounts consistently over time. Through the U.Fund automatic contribution plan, you can make contributions as small as $15 a month, and these payments will come out of your checking or savings account automatically each month. To sign up, complete the U.Fund Periodic Contributions form (Section 6 of the application) and give us a voided check or deposit slip from your bank. You can cancel your automatic contribution at any time with no penalties or fees. More details may be found in the U.Fund *Fact Kit*.

If you have additional questions, please contact:

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