Section 529 College Savings Plans

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August 2017

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Summary

State-administered College Savings Plans (often called 529 plans) are attractive vehicles for accumulating savings to pay for post-secondary educational expenses. Any individual donor, regardless of income level, can fund an account for any individual beneficiary – while still retaining control over the account. By funding a plan, the donor's contribution is (in most cases) removed from his/her own estate. The plan's beneficiary can be changed to any of a wide array of relatives (of the beneficiary) as often as needed.

Once a 529 plan has been funded, investment earnings grow tax-free in the account. Withdrawals made by the beneficiary are federal (and usually state) tax exempt – provided they are used for qualified educational expenses including: tuition, room and board, books, required equipment, and fees. If withdrawals are not used for qualified expenses, the earnings are taxable and trigger a 10% penalty payable by the recipient. At any time, a donor can revoke the plan and take back the plan balance. In this case, any reclaimed earnings will be subject to both income tax and the penalty tax.

In 2017, an individual donor is allowed to make an annual contribution of up to $14,000 toward a beneficiary's 529 account without gift tax consequences. Using a special election, an individual donor can make a one-time contribution of up to $70,000 (married couples gifting jointly can contribute up to $140,000) to an individual beneficiary's account. However, if the special election is used, subsequent annual contributions for the next four years to the same beneficiary would have gift tax consequences.

Each state's plan is unique and offers a limited number of investment choices from one or more financial vendors. The most important variables among 529 plans include state taxation, expenses, and investment flexibility. Currently, 34 states offer either income tax deductions or tax credits on contributions.

Expenses, including set up and/or annual administration fees paid to the state, asset management and/or administration fees paid to the vendor, and commissions paid to a financial broker, can total up to nearly 2.5% per year. Choosing plans with lower fees is an easy way for a donor to help increase the potential for satisfactory long-term account results.

Investment flexibility, which means the number and type of investment choices available to the donor and the ease of making changes to those choices, is often cited as a major drawback of 529 plans. Investment options are limited to those available in each state's plan, and under most circumstances, changes to those choices are allowed only twice per calendar year. Investment programs will fall into one of three general categories: age-based, static, or self-directed (see Appendices A – C).

While other college savings vehicles exist and certainly should be considered, recent changes to tax law now often make 529 plans the best option among these choices. Alternative college savings methods are addressed later in this report.

To select a plan, a donor, after considering other savings methods and any special tax breaks from his/her own state plan, should look for a 529 plan with low expenses and investment flexibility. This report includes information on several state plans of interest: Nevada, Ohio, Utah, and Virginia. Because many of WESCAP's clients reside in California, information about California's plan is also provided.

529 College Savings Plans

Authority, history   In 1996, Section 529 of the Small Business Job Protection Act was enacted to allow states to set up their own federal tax deferred programs to encourage saving for college costs. The programs consisted of prepaid tuition plans and college savings plans. Since the student must attend college in the state sponsoring the prepaid tution plan in order to ensure the maximum financial benefits of this type of program, and numerous states have either shut down or modified their prepaid plans, our focus in this report is on the more flexible college savings plans.

The Economic Growth and Tax Relief Act of 2001 materially changed the rules for college savings plans so that earnings withdrawn from the plans are federally tax exempt as long as they are spent on qualified higher educational expenses including: college or equivalent tuition, room and board, books and fees. Changing beneficiaries was made easier and thus made extended family education planning less difficult. The plan beneficiary may be changed without tax consequences at any time to any other member of the beneficiary's family. As stated in IRS Publication 970, the beneficiary's family includes the beneficiary's spouse and the following other relatives of the beneficiary:

1. Child or descendant of a child.
2. Brother, sister, stepbrother, or stepsister.
3. Father or mother or ancestor of either.
4. Stepfather or stepmother.
5. Son or daughter of a brother or sister.
6. Brother or sister of a father or mother.
7. Son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law.
8. The spouse of any individual listed above.
9. First cousin.

The federal tax benefits of Section 529 plans created in 2001 were set to expire after 2010. **However, the Pension Protection Act of 2006 makes permanent the federal tax exclusion for qualified withdrawals from a 529 plan.**

Current general federal requirements   Any person and most entities can establish and fund a plan for any individual beneficiary. However, the donor may only fund a 529 account with a cash contribution. A donation of other securities is not allowed. The beneficiary may be changed at any time, as noted above, to another family member. Changes to investment choices are limited, however, generally to twice per calendar year. Plan balances are not to exceed the maximum estimated cost of education for a beneficiary, but the precise limits are left to each state. The funds are to be paid to accredited undergraduate and post-graduate colleges, universities, and some vocational schools for qualified expenses.

State income taxes Most states do not tax withdrawn qualified earnings, regardless of whether the plan is in-state or not. Currently, 34 states offer either state income tax deductions or tax credits for all or some of the contributions made by their own taxpayer donors. Donors residing in these states should strongly consider using their own state's plan – at least for the first year of funding – to obtain these favorable tax benefits.

California beneficiaries and donors Since California conforms to federal law, earnings withdrawn from all 529 plans (including California's plan) are exempt from state income tax when used for qualified higher education expenses. However, there is no state income tax deduction for contributions made by California residents to any plan including the California plan. Because of this, **California residents should also consider plans outside the state** – especially those that provide greater investment flexibility and/or have lower expenses.

Investment flexibility enhancements To increase investment flexibility the owner must rely on these features:

1. Typically, each new cash contribution may be directed to a different plan or to a different investment choice within a plan (for some state plans).

2. Plan balances or portions may be shifted to another investment choice within a plan twice per calendar year.

3. Plan balances may be rolled-over to another state plan (but not more frequently than every twelve months).

4. If the beneficiary is changed, the investment choice may be changed at that time. A beneficiary may be changed at any time.

General features of state 529 plans Each state plan is unique and not all plans are available directly to the public. A broker or financial advisor may be needed to set up and invest the account on behalf of the donor. Plan features include:

1. State taxability Many states will grant a tax deduction to the donor if the donor lives in that state. This is a significant financial advantage available to some donors. Most states do not tax income or gains either when they are earned or when they are distributed (same as the federal rule).

2. Expenses Types of expenses may include: annual administrative expenses and/or set up fees paid to the state, asset management and/or administrative expenses paid to the vendor, and commissions paid to a broker. One of the cheapest plans (Utah) has a maximum $12 annual account maintenance fee and many investment options costing less than 0.30% annually, which includes the administrative fee and underlying asset management fees. Conversely, the most expensive broker-introduced plans could average close to 3% per year, including commissions.

3. Investment choices Most states offer a limited range of choices, typically with a single vendor only. However, some states offer two or more vendor choices.

   A. Age-based choices Most states offer an age-based choice. Age-based choices are invested primarily in equities (usually U.S. common stocks) when the child is very young. As the child grows older, the plan shifts gradually from equities to fixed income and money market type investments to ensure that gains made earlier are not lost just before they are needed for college. Some plans offer a range of choices from conservative to aggressive risk profiles. An age-based choice puts the investment decision on "auto-pilot". In some plans, the donor may ignore the actual age of the child and select any "age-based" portfolio that is available. (See Appendix A.)

B. Static choices   Many plans offer static portfolios. These may range from conservative to aggressive. The allocation in these portfolios does not change automatically over time. (See Appendix B.)

C. Self-directed option   Some plans allow the donor (or advisor) to choose from various funds offered within the plan. There is no predetermined investment mix. However, like the age-based and static choice options, assets can only be moved twice per year, unless the beneficiary has changed. (See Appendix C.)

General benefits of college savings plans   The most obvious financial benefit of using these plans is the avoidance of taxes on investment income and earnings. Clearly, the earlier a plan is started for a beneficiary, the greater the potential tax benefit. Furthermore, these plans can be funded by high-income donors. 529 plans allow the beneficiary to potentially accumulate the largest account balance of the various college savings vehicles (many plans allow account balances to reach $300,000 or more per beneficiary).

Estate planning issues   The plan is owned by the donor until transferred to another eligible owner or is paid out to the beneficiary. Nevertheless, the plan balance is considered part of the beneficiary's estate, not the donor's. In fact, the donor can even take the asset back after paying a 10% penalty and income taxes on the earnings. Transfers of assets bridging two generations are subject, of course, to the "generation skipping" transfer tax provisions.

Contributions made to a 529 plan, however, are subject to the gift/estate limits (currently $14,000 per donor/per donee/per calendar year) without creating potentially adverse gift/estate effects. This amount is increased periodically to account for inflation. In 1997, federal law was altered to allow for a one-time-per-beneficiary contribution of up to five times the annual gift limit ($70,000 per donor) to a 529 plan. This one-time accelerated gift allowance per beneficiary precludes additional gifts for the next five years to that same beneficiary by that donor without generating gift/estate tax consequences. The accelerated contribution is treated as if it had been made ratably over a five-year period (see IRS Form 709). If the donor dies during the five-year period, a proportional part of the gift will be added back into the taxable estate.

Impact of legislation raising the "kiddie" tax age to 23 Congress enacted legislation to reduce the tax loophole created by parents shifting income to children. Effective 1/1/08, the "kiddie" tax laws were changed to include children under age 19, as well as some full-time college students under age 24. Therefore, parents with a child under age 19 who hold custodial assets for the child's benefit (or under age 24 if the child is in school), may face a larger than expected tax bill for selling securities with significant embedded gains and holding income-producing investments like bonds that generate more than $2,100 in income each year.

The kiddie tax does not apply to married children who file joint tax returns, nor does it apply to students who provide more than half of their own support by way of employment income.

Coordination with other education tax incentives, financial aid issues   The same expenses paid using funds from 529 plans cannot also be used to claim tax benefits available from other tax incentives such as the American Opportunity Credit, Lifetime Learning Credit, and the qualified educational expenses tax deduction. Yet eligibility for federal financial aid may increase under a 529 plan because the account is treated as assets of the account owner – not the beneficiary – on the FASFA application. Thus, parent-owned 529 plans are assessed at a maximum of 5.64% of the family's Expected Family Contribution (EFC), whereas student-owned assets are assessed at 20%. However, the 529 plan's value will likely be considered when a beneficiary applies for other forms of needs-based student aid and needs-based scholarships.

Losses on 529 plan investments A donor may be able to take a deduction for a loss on a 529 account. This requires complete liquidation of the 529 account assets and all proceeds must be distributed. The loss is the difference between the total amount contributed to the account and proceeds from the account after all assets been distributed. The loss is claimed as a miscellaneous itemized deduction and is subject to the 2% of adjusted gross income threshold.

Disadvantages of 529 plans relative to other methods of saving for education As noted earlier, the main disadvantage of 529 plans is the lack of investment flexibility due to the limited investment options available and the inability to change investment choices more than twice per calendar year. Additionally, the total expenses of a 529 plan can exceed those of other savings vehicles – particularly when the plan is set up through a broker. Moreover, the 529 plan does not allow a donor to fund the account with appreciated securities. Finally, withdrawn plan earnings, if not used for qualified expenses, are taxed (and penalized 10%) to the recipient, whether donor, beneficiary or other.

Other Financial Vehicles for College Savings

Other Financial Vehicles for College Savings While 529 accounts remain our preferred method for meeting college funding needs, they do have some drawbacks as noted above and thus other financial vehicles should also be considered. Listed below are some of the more common alternative college savings instruments.

Coverdell Education Savings Accounts (formerly called Education IRAs) Coverdell accounts can be self-directed, thus giving the donor access to many investment choices and the ability to better control expenses. Coverdell accounts can be used for certain elementary and secondary school costs, a feature not allowed by Section 529 plans. Like 529 plans however, there is no federal deduction for contributions and no federal taxation of withdrawals when used for education. Treatment of account assets in determining eligibility for need-based financial aid is similar to 529 account assets as well. There is, however, a limit of $2,000 per year (per beneficiary) that can be contributed to Coverdell accounts. In addition, contributions allowed to these accounts are phased out for married taxpayer donors with adjusted gross income between $190,000 and $220,000 (single taxpayer limits are half those amounts). However, gifts could be made to others, below the limits, who could, in turn, fund these accounts.

Coverdell accounts have additional restrictions with respect to the beneficiary's age when contributions must stop (generally age 18) and how old before the account must be used (age 30). Furthermore, Coverdell assets are not revocable and distributions are paid to the beneficiary. The beneficiary can be changed, penalty and tax-free, to another family member (who must be under age 30) as long as the existing beneficiary does not have legal control over the account.

Uniform Transfers to Minors Accounts (UTMA) Transfers to UTMA accounts remove assets from the donor's estate and legal control over the assets is given to the beneficiary at the age of majority (age 18 or 21 – depending upon the state). A key advantage of these accounts relative to most 529 plan programs is that they allow for greater investment flexibility. Yet because these vehicles are considered as assets owned by the child when determining financial aid, they can significantly reduce a beneficiary's eligibility to obtain need-based financial aid. Moreover, as mentioned earlier, changes to the kiddie tax law have made these accounts less attractive from a tax savings standpoint for full-time students under age 24.

Custodial 529 Plan Another strategy to circumvent the problems created by the tax law changes is for the donor to liquidate the minor's UTMA account and use the proceeds to fund a 529 plan, thus creating a "custodial" 529 plan.

There are some important issues a donor should consider before taking this course of action. Unlike directly funded 529 plans, the child gains control over the custodial 529 account at the age of majority. Also, the beneficiary cannot be changed. Therefore, if a donor has already funded a UTMA account but wants to establish a 529 plan for the primary purpose of maintaining control over the assets, he/she should consider keeping the UTMA account separate and opening a 529 plan with other funds. In addition, because only cash can be used to fund a 529 plan, the UTMA assets will need to be sold prior to funding the custodial 529 accounts. This may generate unwanted capital gains taxes for the donor (potentially up to a 23.8% federal tax rate for "long-term" held assets sold in 2017), making the whole exercise less attractive. The decision to use a custodial account hinges upon tax brackets, how old the beneficiary is, how large the impending capital gains are, and whether the donor will add funds to the plan later.

Other Trusts A trust can provide greater financial flexibility for estate planning and can extend beyond educational savings needs. Due to the expense and difficulty of establishing and administering a complex trust, one should first consult with an experienced estate planning attorney. Such trusts are beyond the scope of this report.

Qualified Savings Bonds (Series I-bonds and Series EE-bonds) These U.S. Treasury bonds may be bought (up to $10,000 issue price per year of each series) for future payment of higher education tuition and fees. However, the exclusion from tax on interest paid is phased out for married taxpayer donors with adjusted gross income between $117,250 and $147,250 (married filing jointly).

Roths and other types of IRA's While taking distributions from an IRA before age $59^{1/2}$ generally results in a 10% early withdrawal penalty, any type of IRA offers the account owner the ability to take distributions for qualified higher education expenses for oneself and other family members before age $59^{1/2}$ without incuring this early withdrawal penalty. Still, income tax may be owed on the distribution, regardless of the account owner's age. However, unlike other IRAs, contributions made to a Roth IRA can be withdrawn tax-free at any time. Moreover, Roth IRA account earnings can be withdrawn tax-free and penalty-free as long as the account has been in existence for 5 years and the accountholder is over age $59^{1/2}$. For Roth conversion acounts, the amount that has been converted can be withdrawn tax-free and penalty-free regardless of age, provided that the conversion was made at least 5 years prior to the distribution. After meeting the 5 year requirement and reaching age $59^{1/2}$, earnings on Roth conversions are tax-free and penalty-free as well.

Taxpayers with adjusted gross income under $186,000 (married filing jointly) can currently make annual contributions of up to $5,500 ($6,500 if older than 50) to their individual Roth IRA accounts. Smaller contribution amounts are allowed for those couples with adjusted gross incomes of up to $196,000. Conversions can be made to Roth IRAs regardless of income level. Roth IRA account assets can be invested in a wide variety of investment types and grow tax-free while in the account. As with all other

IRAs, the value of the Roth IRA account is not counted as an asset on the FASFA form, but distributions made from the account will be treated as income the year after they are taken.

Pre-paid tuition plans These are authorized under Section 529 and share the general rules for administration that govern college savings plans. They are designed to lock in a current cost for tuition at a specific institution or set of institutions. The implied return on investment is the inflation rate for tuition.

Direct payment of educational expenses College savings plans aside, donors can always choose to pay any amount of a student's tuition directly to an institution without generating any gift/estate tax consequences for the donor.

When should one avoid 529 College Savings Plans and consider other devices? Since the greatest advantage of 529 plans lies in tax avoidance, other methods of saving for education become relatively more attractive if the taxes to be avoided are likely to be modest. This happens, in particular, when the beneficiary is close to spending the money for education. At that time, the accumulated savings would likely be invested in low risk, low return assets to reduce risk. Additionally, if the funds might be used for non-educational purposes, one should probably not fund a 529 plan.

529 Plan Selection Process

What follows is a general procedure for plan selection. As plans, legislation, and investment markets are in flux, this procedure may become outdated.

1. The donor should first review the ages of beneficiaries being considered. The donor should consider issues of need and fairness as perceived by the beneficiaries and their relatives. Then, the donor should judge whether an alternative to Section 529 plans should be considered (see text above).

2. The donor should next review the plan of the state in which the donor is a resident, as a few states offer significant state tax deductions for contributions to their own state plan(s) (see Information Sources, below). Assuming there is a tax benefit available, after opening a home-state plan and collecting the tax benefit, a donor might shift to a plan (after 12 months) that is more advantageous in the long run (lower costs and/or better investment choices). Note that a trusted relative living in a state with a more favorable tax deduction could act on behalf of the donor as owner of the account. In such a case the relative would be the owner of the account and get the tax break. Also note that some states will rescind the tax benefit if funds are moved to another state plan.

3. If no state tax deduction is available, the two variables of expense control and investment flexibility should become the over-riding criteria for plan selection.

Expenses and general descriptions of investment choices for plans are prominently displayed and easily compared at a number of sources (see Information Sources, below).

State College Savings Plans with Interesting Investment Features / Cost Structures

We have identified several state plans with interesting investment characteristics and attractive cost structures. They represent especially good choices for those donors who do not qualify for special state tax breaks. **Note: these plans are presented in alphabetical order – not in order of preference**.

Nevada The Nevada Vanguard 529 Savings Plan has a formal agreement with Upromise Investments, the company behind the Upromise rewards service that rebates individuals for making purchases at hundreds of America's leading companies. Under this 529 plan, an account can be linked to the Upromise rewards service so that all or a portion of one's rebate dollars are automatically transferred to the 529 account on a periodic basis.

The plan's investment manager is Vanguard Investments, which keeps the plan among the least expensive of all the 529 Plan options while generating attractive long-term results relative to its peers. Investment options include 3 age-based tracks and 15 individual portfolios. The investments are managed using passive (index) strategies, so exposure to most of the common asset classes can be easily accomplished if desired.

Total annual plan fees range between 0.17% and 0.45%, and there is a minimum initial contribution of $3,000 ($1,000 for Nevada residents). The maximum contribution amount is $370,000 per beneficiary. There are no tax deductions or credits for contributions as Nevada does not have a personal income tax.

Ohio The Ohio CollegeAdvantage Direct 529 Savings Plan offers 4 age-based options, 5 static balanced options and 12 individual-fund portfolios along with 3 capital preservation options. The current plan managers include Vanguard, Dimensional, and Fifth Third Asset Management. All of the basic asset classes can be found within this plan. There are no enrollment or account maintenance fees and initial purchases can be as little as $25. Total annual plan fees range between 0.18% and 0.55%.

The Ohio CollegeAdvantage Direct 529 Savings Plan is linked to the Upromise program and has a maximum account balance of $445,000 per beneficiary at which time no additional contributions are allowed. Ohio residents can deduct up to $2,000 in contributions per beneficiary, per calendar year, from their taxable income.

Utah The Utah Educational Savings Plan Trust has one of the lowest expense ratios of all the 529 plans. In fact, one of its static options, the Public Treasurer's Investment Fund (which invests in short-term fixed income instruments), has no management fees. The plan has a $12 maximum annual administrative fee, which is waived for Utah residents and anyone who elects the online statement delivery option. There are 14 investment options – four age-based options, eight static options, and two customized options. The underlying funds, with the exception of the Treasurer's Fund, consist of funds managed by the Vanguard Group and Dimensional and carry rock bottom management fees ranging from 0.16% and 0.60%. There are 18 Vanguard index fund offerings and 8 Dimensional funds providing broad equity diversification and reasonable fixed income exposure.

The Utah college savings plan allows contributions to be made to an account until the beneficiary has a balance of $430,000. For 2017, Utah residents may claim a maximum annual tax credit of $192 per beneficiary (assuming married donors make contributions of $3,840 or more).

Virginia (WESCAP's top choice). The Virginia CollegeAmerica Plan, which is only available through commission-paid brokers or approved financial advisors, features 41 investment portfolios, most of which are individual funds, but also includes some target date and static options. The individual funds range from large and small company U.S. stocks to foreign and emerging markets stocks, high and low quality U.S. bonds and foreign bonds – thus is one of the broadest offerings among the 529 plans. Moreover, because it is a self-directed program, the CollegeAmerica Plan allows the broker /advisor to create a customized portfolio using any or all of the 41 funds. If purchased through a broker, the plan will incur substantial commissions (via front-end, back-end, or level loads). However, F-class shares are available without commissions through approved financial advisors. (WESCAP is an approved financial advisor for this plan and does not charge commissions.) The annual expense ratios for most F-class shares range between 0.45% and 0.75%.

The Virginia CollegeAmerica Plan has a minimum initial contribution of $250 per fund ($1,000 for their money market fund) and a minimum subsequent contribution of $50 per fund. The account balance can reach $500,000 per beneficiary before additional contributions are no longer allowed. Virginia residents can deduct up to $4,000 (jointly) of contributions per account from their state income-tax each year, with unlimited carry forward of excess amounts in future years.

California As many of WESCAP's clients are California residents, we have included some information about the California plan. Note that there is no state tax deduction for contributions, thus other state's programs may be equally or more attractive for California residents.

There are no start up or maintenance fees, nor any sales charges for this direct-sold plan. It contains actively and passively managed offerings from notable managers including Dimensional Fund Advisors,T. Rowe Price, and TIAA-CREF. The plan offers 35 different investment portfolios including 18 age-based options with both active and passive investment choices. Total annual asset fees generally run between 0.10% and 0.58%.

The California ScholarShare College Savings Plan has a $25 minimum initial purchase per fund and currently there is no subsequent minimum investment requirement. A beneficiary's account balance can reach a balance of $475,000 before no further contributions can be made to it.

Information Sources

Kiplinger.com – Discusses 529 plans and has comments on individual state plans with click-through access to all of the state plan websites.

Morningstar.com – Has a section devoted to the various college savings vehicles with informative articles on the pros and cons of each. Offers detailed analysis of each state's 529 plan.

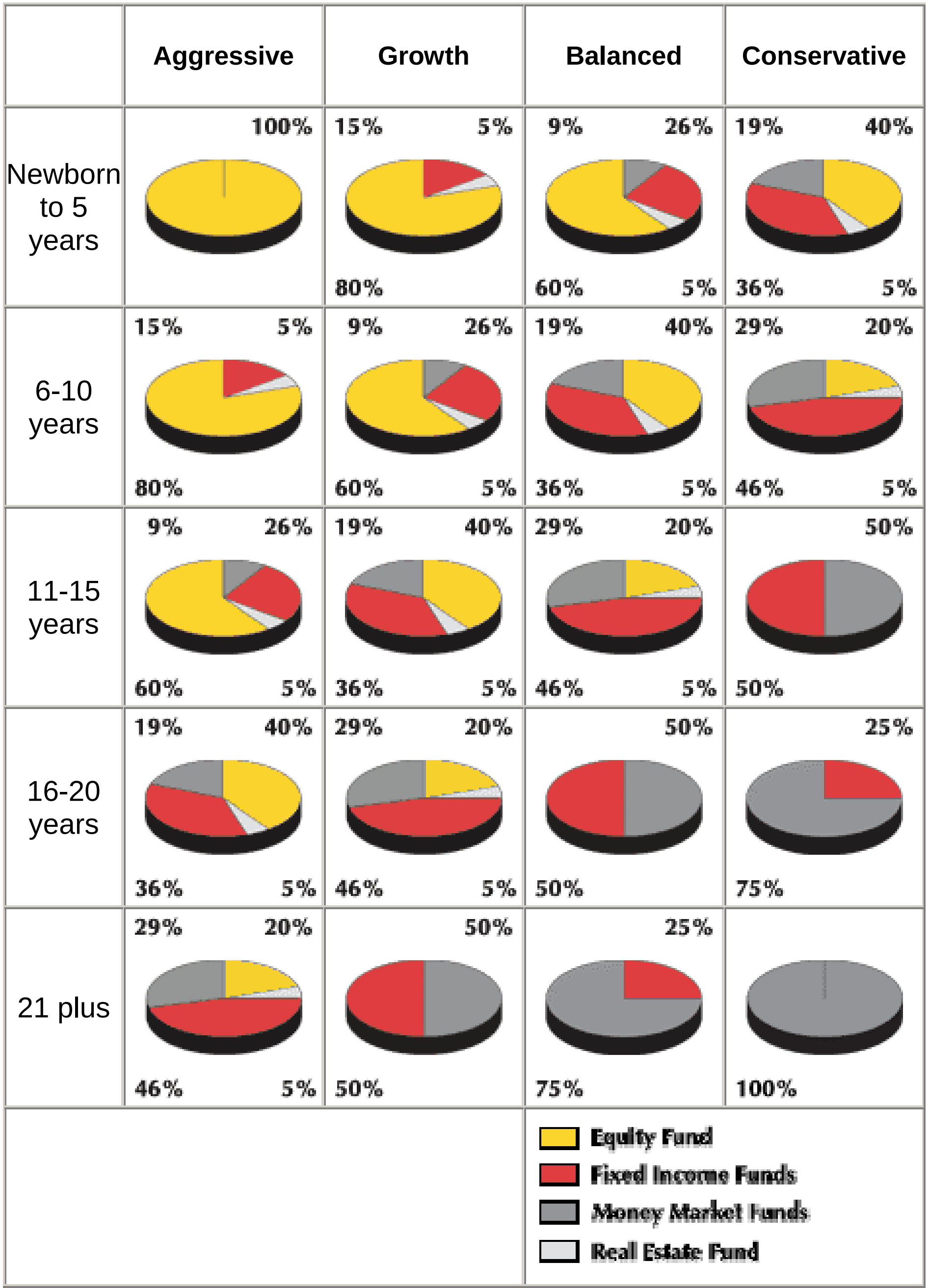
Savingforcollege.com - Has a summary of and click-through access to all of the state plan websites. At this site, you can create a matrix of your selected plans to compare features easily.

State Section 529 Plan websites reviewed in detail:

California:	http://www.scholarshare.com
Nevada:	https://personal.vanguard.com/us/whatweoffer/college/vanguard529
Ohio:	http://www.collegeadvantage.com/
Utah:	http://www.uesp.org
Virginia:	http://www.americanfunds.com/college/college-america/index.htm

Appendix A:
Example of an Age-Based Portfolio Program

The College Savings Plan of Nebraska



The Age-Based approach invests contributions based on the current age of the child. The donor chooses either an aggressive, growth, balanced or conservative allocation. Over time, each diversified Age-Based portfolio will automatically change as the child ages. For instance, if the donor opens an account for a seven-year old and selects the aggressive option, the portfolio allocation would be 80% equity funds, 15% fixed income funds, and 5% real estate funds. When the child turns eleven, the allocation will automatically change to 60% equity funds, 26% fixed income funds, 9% money market funds and 5% real estate funds.

Appendix B:
Example of a Static Portfolio Program

West Virginia's Smart529 Select (note: another 5 portfolios available in the West Virginia program are not shown here due to space limitation). Shown as of October 2006.

DFA Fund	Aggressive Growth	Moderately Aggressive	Growth	Moderate Growth	Balanced
DFA Enhanced US Large Company	25%	22.5%	20%	16.25%	12.5%
DFA US Large Cap Value	20%	18%	16%	13%	10%
DFA US Small Cap Value	20%	18%	16%	13%	10%
DFA US Micro Cap	15%	13.5%	12%	9.75%	7.5%
DFA International Value	10%	9%	8%	6.5%	5%
DFA International Small Cap Value	5%	4.5%	4%	3.25%	2.5%
DFA International Small Company	5%	4.5%	4%	3.25%	2.5%
DFA Emerging Markets Value	0%	0%	0%	0%	0%
DFA Intermediate Government	0%	5%	10%	15%	20%
DFA 5-Year Global Fixed	0%	5%	5%	10%	10%
DFA 2-Year Global Fixed	0%	0%	5%	5%	10%
DFA 1-Year Fixed	0%	0%	0%	5%	10%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

In a typical static portfolio program, the donor is allowed to chose a single strategy (in this plan those choices include "Aggressive Growth", "Growth", and "Balanced"). The underlying investments of each portfolio do not change, nor does the child automatically move into another strategy as he ages. Therefore, it is up to the donor to decide when and if a change in strategy is needed. Federal law allows one tax-free transfer between investment options once per calendar year.

Appendix C:
Example of a Self-Directed Program

The Virginia CollegeAmerica Plan

Growth funds

- AMCAP Fund®
- EuroPacific Growth Fund®
- The Growth Fund of America®
- The New Economy Fund®
- New Perspective Fund
- New World Fund℠
- SMALLCAP World Fund®

Growth-and-income funds

- American Mutual Fund
- Capital World Growth and Income Fund
- Fundamental Investors℠
- International Growth and Income Fund℠
- The Investment Company of America
- Washington Mutual Investors Fund℠

Equity-income funds

- Capital Income Builder
- The Income Fund of America

Balanced fund

- American Balanced Fund

Bond funds

- American High-Income Trust℠
- The Bond Fund of America
- Capital World Bond Fund®
- Intermediate Bond Fund of America®
- Short-Term Bond Fund of America℠
- U.S. Government Securities Fund℠

Money market fund

- The Cash Management Trust of America®

Self-directed programs allow the greatest amount control over the risk/reward characteristics of the portfolio. The donor can elect to utilize one or all of the funds in the program. Typically, if the child is many years from attending college, the portfolio is geared towards maximizing growth, and therefore the donor would place the largest amount of assets in a growth-oriented fund (or funds). Conversely, if the child is on course to attend college within a year, a prudent strategy is to focus on capital preservation/risk reduction. In such a case, the donor would allocate assets mainly in lower volatility bond funds and money market securities, but is not required to do so. The donor may change the investments in the account once per calendar year without tax consequences.