

prepaid529SM

Benefits Guide

Whether you are just starting the higher education journey or continuing it, this Prepaid529 Benefits Guide answers questions on how to access your Prepaid529 account, how benefits are calculated and how and when distributions are processed. The Guide also addresses federal financial aid reporting requirements of 529 accounts and some basic tax issues. You may always access information about your account(s) online at Virginia529.com. For complete information, refer to the Master Agreement, which governs your Prepaid529 account. If you still have questions, call Virginia529 at 1-888-567-0540 or contact us at customerservice@virginia529.com.

GETTING STARTED

Register/view webinars

- Visit Virginia529.com/webinars
- Select a live or archived session of the “Using My Account” webinar series

Complete the Intent to Enroll form

- Access the Intent to Enroll form **online at Virginia529.com**
 - Complete only one form per account owner/beneficiary combination
 - If you have multiple accounts, refer to “**Multiple Prepaid529 accounts**” below
 - The Intent to Enroll form authorizes Virginia529 to communicate with the school and make payments to Virginia schools
 - **Student Identification Number** – a required field. This unique number is assigned by the school and usually located in the acceptance letter
- Submit this form no later than **May 19 – failure to provide all required information may delay processing and payment of benefits**
 - If your beneficiary has been placed on a waitlist, complete this form as soon as a decision is made.
- You also may **mail** the form to Virginia529 at **9001 Arboretum Parkway, N. Chesterfield, Virginia 23236** or fax it toll-free to **1-866-757-1295**
- To ensure proper crediting and payments, submit a new form if **ANY** information changes – particularly if the beneficiary **TRANSFERS** or **ELECTS** to sit out a semester/year
- **NO** benefits will be paid until this form is received by Virginia529 with all necessary information listed

Multiple Prepaid529 accounts

- With multiple Prepaid529 accounts for the same beneficiary, list all accounts on this form
- Accounts will be depleted in the order purchased unless you request otherwise
- For a combination of Tier I and Tier II accounts, the Tier II semesters will be depleted first, unless you request otherwise

Making school deposits

- Refundable or non-refundable deposits due upon acceptance are **not** covered by Prepaid529

Note: In 2012, Prepaid529 began offering semesters not years. All Prepaid529 accounts were adjusted to reflect the change. For each year of benefits purchased under the University or Community College plans, an Account Owner now has two (2) semesters in the corresponding Tier I or Tier II plan.

If the beneficiary is not attending school yet, you do not need to take any action now. Consult the Master Agreement for options, including maintaining the account for the named beneficiary for future use or changing the beneficiary to a qualified member of the family.

CALCULATION OF PREPAID529 BENEFITS

Prepaid529 is a defined benefit program, and benefits vary depending on the account you have and the school the beneficiary attends. Benefits are determined and distributed on a semester basis. You should update Virginia529 on any changes in the student's enrollment status. Below is basic information on the benefits available. Consult the terms of your Master Agreement for more detailed information about your Prepaid529 account and benefits payable.

If Beneficiary attends a Virginia public two- or four-year school

- Prepaid529 benefits- *undergraduate in-state semester or term charges for tuition and mandatory fees required and imposed as a condition of enrollment of **all** students by a two-year or four-year Virginia public college or university for the normal full-time course load for students enrolled in a general course of study*
 - Additional charges for a specific major, class, program or course of study, regardless of what the school calls the charges, are **NOT** covered by Prepaid529
 - **Differential tuition** is a term some schools use to assess additional charges for a particular course, major or program of study. School invoices may show the differential as part of overall tuition, but it is **NOT** covered by Prepaid529
 - Credits above the normal full-time course load are **NOT** covered by Prepaid529
 - Four-year schools: full-time = 12-18 hours
 - Community colleges: full-time = 16 hours per semester of Tier II benefits
 - The student is responsible for any charges not covered by Prepaid529 including, but not limited to, (i) room and board, (ii) participation in a particular sport/activity, (iii) lab or other course charges, (iv) textbooks, (v) supplies, (vi) computers, or (vii) matriculation, graduation, and new student fees
 - Prepaid529 benefits used for less than a full-time course load (including summer school) are prorated. If you are considering using your Prepaid529 benefits for summer school or a mini-session, call Virginia529 at 1-888- 567-0540 to discuss how this may affect your future Prepaid529 benefits
- If the beneficiary is **NOT** a Virginia resident at the time Prepaid529 benefits are paid, the difference between in-state and out-of-state tuition and mandatory fees are the responsibility of the student
- In some instances, the refund value of your Prepaid529 account will exceed the payment otherwise due – if so, Virginia529 will notify you of the option to select an **alternate payment** (see page 3)

If Beneficiary attends a Virginia independent school (private)

- Prepaid529 covers the **lesser** of 1) contract payments made plus the actual return on the Invest529 funds, compounded annually, **or** 2) the highest in-state undergraduate tuition and mandatory fees at a Virginia public institution in the semester benefits are used
 - The actual return for any period may be negative
 - Virginia independent, or private, schools include both non-profit and accredited proprietary schools eligible to participate in the federal financial aid program
- In some instances, the refund value of your Prepaid529 account will exceed the payment calculation above – if so, Virginia529 will notify you of the option to select an **alternate payment** (see page 3)

If Beneficiary attends school (public or private) outside Virginia

- Prepaid529 covers the **lesser** of 1) contract payments made plus interest at the composite **reasonable return**, compounded annually, **or** 2) the average in-state undergraduate tuition and mandatory fees at Virginia public institutions in the semester benefits are used
- In some instances, the refund value of your Prepaid529 account will exceed the payment calculation above – if so, Virginia529 will notify you of the option to select an **alternate payment** (see page 3)

Conversion of Tier I and Tier II benefits

- Tier I (former University) and Tier II (former Community College) benefits may be applied to either four-year or two-year Virginia schools at the conversion rates applicable for your contract purchase year, as described in the Prepaid529 Program Description
- Tier I semester contracts cover one semester of Tuition (as defined in the Master Agreement) at a Virginia public-four year school; the same contract applied to a Virginia public two-year or community college will cover **more** than a semester of Tuition. Conversely, a Tier II semester contract will cover one semester of Tuition at a Virginia public two-year or community college; when applied at a Virginia four-year college, the contract will cover **less** than a semester of Tuition. See the Prepaid529 Conversion Table below for the conversion factor relating to your contract based on the enrollment period/year in which it was purchased

Prepaid529 Conversion Table

Contract Purchase Date	Tier I Coverage*		Tier II Coverage*	
	VA public 4-year university	VA public 2-year college	VA public 4-year university	VA public 2-year college
Prior to December 2012	1	3.3333	0.3000	1
Dec.1, 2012 - Nov.30, 2013	1	2.6638	0.3754	1
Dec.1, 2013 - Nov.30, 2014	1	2.6466	0.3779	1
Dec.1, 2014 - Nov.30, 2015	1	2.6130	0.3827	1
Dec.1, 2015 - Nov.30, 2016	1	2.6076	0.3835	1
Dec.1, 2016 - Nov.30, 2017	1	2.6077	N/A	N/A
Dec.1, 2017 - Nov.30, 2018	1	2.6084	N/A	N/A

*in semesters

Reasonable Return

- Virginia529 calculates a **reasonable return** on Prepaid529 accounts to determine benefits (i) when a student attends school outside Virginia or (ii) upon cancellation (partial or complete) of an account
- **Reasonable return** currently tracks quarterly performance of the Institutional Money Funds Index (reported in the Money Fund Monitor™ by iMoneyNet). The measure of the reasonable return is subject to change without notice. See Virginia529.com for the complete reasonable return history

Timing of Calculation of Benefits

- Virginia529 calculates Prepaid529 benefits prior to the beginning of each academic year
- Each academic year applicable, Virginia529 will contact you about how to take advantage of the **alternate payment** (see below)
- Virginia529 estimates your benefits until the following three factors are determined:
 - All Virginia public schools have established tuition and mandatory fees for the upcoming academic year
 - Intent to Enroll is submitted, identifying school selection
 - Final interest calculations are complete – as of June 30

Alternate Payment

- Whether attending a Virginia public or private school or school outside Virginia, the refund value of a Prepaid529 account may exceed the payment otherwise due to the school – this is the **alternate payment**
- To request the alternate payment (i.e., the refund value) rather than the statutory defined benefit otherwise applicable for any semester, you must in effect, partially cancel your Prepaid529 contract
- Each semester, once the alternate payment is requested, Virginia529 will create an Invest529 Stable Value account (if you don't already have one) and transfer the alternate payment amount to that account
- Once benefits are transferred to Invest529, the transaction may not be reversed and you now control the timing and amount of distributions by submitting **Distribution Requests**

- The alternate payment generally applies if you purchased a Prepaid529 contract for an older beneficiary and/or the beneficiary attends a lower cost Virginia public school or a Virginia private school
- The decision **not** to claim the alternate payment **does not** increase your benefits for future years

HOW AND WHEN FUNDS ARE DISBURSED

Virginia public or private schools

- Payments are made by Virginia529 directly to Virginia public or private schools each semester
- Payments are made after the school's **add-drop period**
AND
- Upon receipt of an invoice from the school
- **Do not** pay the school for tuition and mandatory fees covered by your Prepaid529 account
BUT
- The student **is responsible** for charges not covered by Prepaid529 benefits (see above)
- Some Virginia community colleges require students using Prepaid529 benefits to notify the college's Student Accounting Office at registration. Check with your community college about their policy. **Failure to do so may result in dropped classes!**
- **NO payment arrangements will be made until Virginia529 receives your Intent to Enroll AND your account is paid in full**
- Virginia529 is not responsible for late fees charged for failure to comply

Schools outside Virginia

- Virginia529 will NOT communicate with the out-of-state school and YOU will control the timing and amount of disbursements
- Virginia529 will automatically create an Invest529 account and transfer Prepaid529 benefits to that account each semester until Prepaid529 benefits are depleted or the student transfers
- The Stable Value Portfolio is the default portfolio for the Invest529 account
- If you have an existing account in the Stable Value portfolio, Virginia529 will use that account for transfers
- The Stable Value option may be changed via Investment Direction
- Transfers will occur each July and November as long as you have benefits payable
- Notify Virginia529 **IMMEDIATELY** if the beneficiary transfers or stops attending school
- After the Invest529 account is funded, **you** control the timing of disbursements from the account
- Submit a **Distribution Request** at any time payable to the school **OR** to the beneficiary **OR** you to cover any qualified higher education expenses
- Virginia529 requires a separate Distribution Request for each distribution
- The new procedure eliminates issues Virginia529 encounters with schools outside Virginia
- Your ability to pay before add/drop prevents dropped classes and blocked registrations
- Review the Virginia529 Distribution Guide for more information on using your Invest529 or CollegeWealth account

Transfers to different schools

- Virginia529 makes Prepaid529 distributions on a semester-by-semester basis to the school indicated in your Intent to Enroll
- Notify Virginia529 with a new Intent to Enroll as soon as you decide to STOP attending a school or TRANSFER schools – failure to do so may result in payment to the wrong school

QUALIFIED HIGHER EDUCATION EXPENSES

- Federal law (§ 529 of the Internal Revenue Code) requires that 529 distributions be for **qualified higher education expenses (QHEE)** to be tax free
- QHEE are expenses (i) incurred by or on behalf of the *designated beneficiary* of the account being used

- (ii) to attend an *eligible educational institution* (EEI, defined below)
- Qualified higher education expenses (QHEE) include the following:
 - Tuition and fees at an eligible educational institution (EEI)
 - Up to \$10,000 per beneficiary, per year for private and religious K-12 tuition
 - Textbooks, supplies and equipment required for enrollment/attendance at an EEI
 - Room and board for any academic period if the student is enrolled at least **half time** in a degree, certificate, or other program leading to a recognized educational credential at an EEI
 - Special needs services incurred in connection with enrollment or attendance at an EEI
 - NOTE: Repayment of student loans does **NOT** meet the federal definition of a QHEE

Note: Not all expenses listed above are covered by your Prepaid529 account. Refer to “Calculation of Prepaid529 Benefits” (pages 2-4) as it relates to your beneficiary.

ELIGIBLE EDUCATIONAL INSTITUTIONS (EEI)

- Accredited post-secondary (after high school) educational institutions offering credit toward an associate’s, bachelor’s, graduate- level or professional degree, or another recognized post-secondary credential may be an EEI
 - Must be eligible to participate in federal student financial aid programs under Title IV of the Higher Education Act of 1965 and such schools will have a **Federal School Code**
 - Eligible schools are on the U.S. Department of Education’s website, faisa.ed.gov, under **School Code Search** – this includes private career or proprietary schools and foreign schools **OR** call the U.S. Department of Education at 1-800-4-FED-AID (1-800-433-3243)
 - Many certifications and technical programs are EEI, providing a wide range of options for students using a Virginia529 account
 - Institutions that do not participate in federal student financial aid programs or are **not** accredited are not EEI

FINANCIAL AID

Will my Prepaid529 account impact my application for need-based financial aid?

- The value of Virginia529 accounts is included as an account owner asset in calculating federal financial aid
- If the student is a dependent, the Virginia529 account is considered a parental asset (whether the account owner is the parent or the student)
- If the student is independent, the account is considered a student asset
- Inclusion of accounts owned by someone other than the student or custodial parent depends on the school
- 529 accounts should not affect receipt of merit-based financial aid (academic or athletic scholarships, for example) and do not affect eligibility for a Virginia Tuition Assistance Grant for Virginia residents
- **Federal student loan proceeds/scholarships:** Because Prepaid529 does not disburse funds to Virginia schools until after add/drop, contact your school’s financial aid office to coordinate disbursement of any federal loan money or scholarships

What amount is reported on the Free Application for Federal Student Aid (FAFSA)?

- For Prepaid529 contracts, report the “refund” or “cancellation” value of **ALL** benefits
- Payments made to Virginia529 accounts plus reasonable rate of return earned less any benefits already paid out
- For Invest529 or CollegeWealth accounts, the account value is the current balance or market value. Account values will vary depending on interest rates, market conditions and the passage of time. FAFSA requires the value as of the date you submit the form
- All 529 accounts owned (or deemed owned) by the parents must be reported
- Access current account values for all Invest529, CollegeWealth®, and/or Prepaid529 accounts online at Virginia529.com. Select “My Account” from the home screen and log in t

- Select “View Accounts”, then “Contract Summary”
- Use “Select a Beneficiary” tab and select “All Beneficiaries” – this will provide a list of all accounts and beneficiaries and a total value of all accounts
- If you have trouble accessing your account, call Virginia529 toll free at 1-888-567-0540 for assistance

What about scholarships?

- Scholarships may include (i) grants awarded to students for academic, athletic, musical or other special abilities, (ii) certain tuition remission benefits for children of university employees, and (iii) appointments to a United States military academy
- Scholarships do **not** include need-based financial aid, including student loans or work-study programs
- Scholarships often cover the same expenses covered by Prepaid529 benefits. Work with your financial aid office to coordinate scholarship and Prepaid529 benefits
- Prepaid529 account and benefits may be saved for later undergraduate or graduate semesters
- You may request a scholarship refund, penalty free
- Documentation of the scholarship awarded must be provided to Virginia529 and you should keep a copy for tax purposes
- If the scholarship amount is less than the Prepaid529 refund value, the scholarship refund will be equal to the scholarship amount
- If the scholarship amount is greater than the Prepaid529 refund value, the scholarship refund will be equal to the Prepaid529 refund value
- Any gain is reported on a 1099-Q in the distribution year and taxed as ordinary income unless you have other QHEE to support the distribution
- NCAA scholarship rules may impact 529 distributions - contact your school to discuss any interplay between your accounts and any NCAA scholarship
- See “**tax-free educational assistance**” below for more information on scholarships

TAX INFORMATION

Keep good records

- Documentation of QHEE (copies of invoices and receipts, for example) are required for tax purposes to support the tax-free treatment of Virginia529 distributions
- NO documentation is submitted with a Distribution Request – that is retained in your records

Tax Treatment of Distributions

- Qualified Distributions – generally, distributions for QHEE are federal tax and penalty free
- Virginia taxpayers: Virginia529 distributions for QHEE are also state tax free
- Non-Virginia taxpayers: contact your state’s department of taxation for information on the tax treatment of distributions from another state’s § 529 program
- QHEE is reduced by **tax-free educational assistance** (including tax-free scholarships and fellowships, certain Veteran’s educational assistance, Pell grants, employer-provided educational assistance, and other tax-free payments except gifts or inheritances) to calculate “adjusted QHEE”
- Tax-free scholarships include payments for tuition, fees, books, supplies or equipment
- Non-qualified distributions (distributions not used for QHEE) are taxable as ordinary income and, unless an exception applies, subject to a federal penalty of 10 percent of the earnings
- Non-qualified distributions may result in the recapture of prior Virginia income tax deductions
- Exceptions to the non-qualified distribution rules: distributions in the event of the beneficiary’s death, disability or receipt of a scholarship are **NOT** subject to the earnings penalty or recapture
- Virginia529 issues an IRS Form 1099-Q (Qualified Tuition Program Payments) each year in which a distribution is made
- For distributions to the beneficiary or a school, the 1099-Q is sent to the beneficiary
- For distributions to the account owner, the 1099-Q is sent to the account owner

- Earnings are reported by the 1099-Q recipient if a distribution is **NOT** supported by QHEE
- The same higher education expense may not qualify for more than one tax benefit (e.g. tax free distributions AND a federal tax credit)
- For more information on the tax treatment of distributions see IRS Publication 970, "Tax Benefits for Education," available at irs.gov **OR** call the IRS toll free at 1-800-829-3676 **OR** consult your tax advisor

IMPORTANT NOTICE: Individual tax situations vary greatly. Please consult a tax adviser concerning any legal or tax implications arising from opening or using your Virginia529 account. Virginia529 cannot provide legal, financial or tax advice and the information in this Distribution Guide should not be construed as such with respect to the consequences for any particular individual as a result of contributions to, Invest529ment of, or distributions from a Virginia529 account.

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**Virginia529
9001 Arboretum Parkway
North Chesterfield, VA 23236
Toll-free 1.888.567.0540
Virginia529.com
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