

# prepaid529<sup>SM</sup>

## Benefits Guide



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This guide should answer many questions about accessing your account benefits, how benefits are calculated, and how and when funds are paid to institutions. Additionally, learn more about the impact of your accounts on scholarships, federal financial aid, and tax reporting. For more detailed information, refer to the Prepaid529 Program Description & Master Agreement.

**The process of using your Prepaid529 account is changing. Beginning in May 2021, an Intent to Enroll Form is no longer required and will be replaced by a simplified online process. Do not submit an Intent to Enroll Request at this time. Prepaid529 account owners will be notified when more details are available.**

## GETTING STARTED

### Review your account information

1. Visit [www.virginia529.com](http://www.virginia529.com) and select "My Account" to log in or create an online user profile.
2. Select "My Profile" to access your account information and make any necessary updates.

### Submit an Intent to Enroll Form

Virginia529 will not disburse Prepaid529 funds to an eligible educational institution until your contract is paid in full and an Intent to Enroll Form has been submitted to Virginia529. The Intent to Enroll form authorizes Virginia529 to communicate with, and make payments to eligible educational institutions in Virginia

1. Select "Manage My Accounts", then "Other Transactions".
2. On the Other Transactions page, select "Intent to Enroll".
3. Enter the requested information about the account owner and beneficiary.
4. Enter the requested information about the institution that the beneficiary is planning to attend.
  - Student ID is a required field. This unique number is assigned by the school and usually located in the acceptance letter.
5. Review the details and submit the request no later than June 30th.

#### Helpful tips:

- Complete a separate Intent to Enroll request for each beneficiary planning to use their account during the upcoming school year, even if they are attending an institution outside of Virginia.
- The Intent to Enroll Form only needs to be submitted once per academic year, as long they are using the benefits for the fall or spring semester. A new Intent to Enroll Form should be submitted to use benefits for winter and/or summer sessions.
- Submit a new Intent to Enroll Form if the beneficiary changes institutions during the academic year.
- If the beneficiary has been placed on a waitlist, complete the Intent to Enroll Form as soon as an acceptance decision is made, but after May 1st.
- Refundable or non-refundable deposits due to the institution upon acceptance are not covered.
- If multiple Prepaid529 contracts are owned, they will be depleted in the order purchased. In addition, combination contracts (contain both Tier I and Tier II semesters) will be depleted in the order of Tier II first, unless otherwise requested.

## PREPAID529 TIERS

During prior enrollment periods, Prepaid529 contracts were made available at two coverage levels, Tier I and Tier II.

Tier I Contracts (formerly known as University Contracts) will cover one semester of Tuition at a Virginia public four-year college or university. Using a Tier I Contract to attend a Virginia public two-year or community college will cover multiple semesters of Tuition.

Tier II Contracts (formerly known as Community College Contracts) will cover one semester of Tuition at a Virginia public two-year or community college. Using a Tier II Contract at a Virginia four-year college or university will cover less than a semester of Tuition.

Use the Prepaid529 Tier Conversion Table below to calculate the conversion factor of your contract tier based on the purchase date.

Contract Purchase Date	Tier I Semester Coverage at Two-Year Colleges	Tier II Semester Coverage at Four-Year Colleges
Prior to Dec. 1, 2012	3.3333	.3000
Dec. 1, 2012 – Nov. 30, 2013	2.6638	.3754
Dec. 1, 2013 – Nov. 30, 2014	2.6466	.3779
Dec. 1, 2014 – Nov. 30, 2015	2.6130	.3827
Dec. 1, 2015 – Nov. 30, 2016	2.6076	.3835
Dec. 1, 2016 – Nov. 30, 2017	2.6077	N/A
Dec. 1, 2017 – Nov. 30, 2018	2.6084	N/A
Dec. 1, 2018 – Nov. 30, 2019	2.6017	N/A

## CALCULATION OF EXPECTED BENEFIT

Virginia529 calculates Prepaid529 benefits prior to the beginning of each academic year and will not estimate your benefits until the following three factors are determined:

- All Virginia public schools have established tuition and mandatory fees for the upcoming academic year, usually before July 1st.
- The Intent to Enroll Form is submitted, identifying school selection (due no later than June 30th).
- Prepaid529 reasonable rate of return calculations are finalized – as of July 1st.
  - Used to determine benefits when (i) a student attends school outside Virginia (ii) cancelling a contract or (iii) determining the minimum minimum benefit (See Minimum Benefit section).



Although Prepaid529 is a defined benefit program, payouts vary based on when you purchased the contract and the type of institution the student will attend. Institution types fall into one of three categories:

### Virginia public college or university (two-year or four-year)

Prepaid529 will pay tuition and mandatory fees for normal full-time course load (12 – 18 credit hours) in a general course of study at Virginia public four-year institutions. Additional charges for a specific major, class, program or course of study, often referred to as *Differential Tuition*, are not covered by Prepaid529.

Helpful tips:

- Benefits used for less than a full-time course load (including summer school) are prorated. Contact Virginia529 to discuss how this may affect remaining benefits.

- If the beneficiary is not a Virginia resident at the time benefits are paid, the cost difference between in-state and out-of-state tuition and mandatory fees is the responsibility of the student.
- Students attending community college should do a financial check-in with the school.

## Virginia private college or university

Prepaid529 will pay the lesser of:

- Contract payments made plus the actual rate of return.

OR

- The highest in-state undergraduate tuition and mandatory fees at a Virginia public colleges or universities in the semester in which benefits are used.

Payouts to Virginia private colleges or universities may not cover the full cost of tuition and mandatory fees. However, it will never be less than the minimum benefit which, in most cases, is equal to the total payments made on the contract, plus the Prepaid529 reasonable rate of return (See Minimum Benefit section below).

Helpful tips:

- Virginia private, or independent schools include both non-profit and accredited proprietary schools eligible to participate in the federal financial aid program.
- The Prepaid529 reasonable rate of return can be found at: [www.virginia529.com/invest/prepaid](http://www.virginia529.com/invest/prepaid).

## College or university outside of Virginia

Prepaid529 will pay the lesser of:

- Contract payments made plus the Prepaid529 reasonable rate of return, compounded annually.

OR

- The average in-state undergraduate tuition and mandatory fees at Virginia public institutions in the semester benefits are used.

However, the payout will never be less than the minimum benefit (See Minimum Benefit section below).

Helpful tips:

- If the refund value of your account exceeds the payout calculation, one semester of benefits will be moved to an Invest529<sup>SM</sup> account around mid-July. Funds needed for the spring semester will be moved in mid-November. Account owners should monitor the Invest529 account and request a withdrawal after the funds have been transferred.
- Letters will be sent to account owners in early July with specific information about the payout amount for out-of-state institutions.
- The Prepaid529 reasonable rate of return currently tracks quarterly performance of the Institutional Money Funds Index (reported in the Money Fund Monitor™ by iMoneyNet). More details are available at: [www.virginia529.com/invest/prepaid](http://www.virginia529.com/invest/prepaid).

## MINIMUM BENEFIT

Unless a withdrawal occurs prior to the third anniversary of when the contract was purchased, the payout on any Prepaid529 contract cannot be less than the total payments made plus the Prepaid529 reasonable rate of return; this value is known as the minimum benefit. It generally applies if you purchased a Prepaid529 contract for an older beneficiary, the beneficiary attends a lower cost institution or an institution outside of Virginia. For more information, please refer to the description of contract benefits in the Prepaid529 Program Description & Master Agreement.



## Virginia college or university

For a student attending a Virginia public or private school, Virginia529 will pay the minimum benefit directly to the

school for each applicable semester. This may create a credit balance with the school and, if so, it is the student's responsibility to advise the school of how the excess funds should be applied to the student's account. Other qualified higher education expenses include textbooks, computers, and other supplies. Excess funds may also be used for room and board, if the student is enrolled at least half-time at a college or university that qualifies as an eligible educational institution and in a program leading to a recognized educational credential.

### **College or university outside of Virginia**

If the student attending an out-of-state school has an existing FDIC-Insured or Stable Value Portfolio within Invest529, Virginia529 will transfer the minimum benefit amount to that account for each applicable semester. If no existing accounts exist, Virginia529 will create an Invest529 account and transfer the funds into the FDIC-Insured Portfolio.

Helpful tips:

- Once the minimum benefit has been transferred to Invest529, the transaction may not be reversed.
- The account owner is responsible for requesting withdrawals from an Invest529 account. View the Invest529 Withdrawal Guide for more information: [www.virginia529.com/resources/documents/](http://www.virginia529.com/resources/documents/).

## **PAYMENT OF FUNDS**

After submission and acceptance of the Intent to Enroll Request, Virginia529 will make payments on a semester-by-semester basis, but the method will vary depending on if the school is located in Virginia or another state. Notify Virginia529 immediately if the beneficiary stops attending school or submit a new Intent to Enroll Form if they transfer to a new school.

### **Virginia college or university**

Virginia529 will pay funds directly to Virginia public or private schools each semester after the school's add-drop period and upon receipt of an invoice from the school.

Helpful tips:

- Do not pay the Virginia public college or university for tuition and mandatory fees covered by your Prepaid529 account – the school will invoice Virginia529.
- Some Virginia community colleges require students using Prepaid529 benefits to notify the college's office of student accounts at registration. Failure to do so may result in dropped classes.

### **College or university outside of Virginia**

Virginia529 will automatically transfer the minimum benefit to an Invest529 account each semester until the Prepaid529 benefits are fully depleted or the student transfers to a new institution. The account owner is responsible for submitting an Invest529 Withdrawal Request to make payment to an institution, the beneficiary, or to reimburse yourself for other qualified higher education expenses.

Helpful tips:

- Virginia529 will not directly communicate with an out-of-state school to arrange payment.
- Refer to the Minimum Benefit section for more details.

## **REDEPOSITS**

Account owners may redeposit funds that were previously withdrawn from Prepaid529 accounts. The redeposit cannot exceed the amount of the original payout. In order to avoid certain tax consequences and penalties:

- The funds you wish to redeposit must have been refunded by the beneficiary's institution and redeposited into a 529 account for that same student beneficiary.
- The funds must be redeposited within 60 days of the refund from the institution.
- The portion of the refund you wish to redeposit must be a refund of qualified higher education expenses only.

The Redeposit Request Form can be found at: [www.virginia529.com/resources/forms](http://www.virginia529.com/resources/forms).

## QUALIFIED EXPENSES

In addition to paying for tuition and mandatory fees as described in the Program Description, excess funds (See Minimum Benefit section) may also be used for other qualified higher education expenses, including:

- Non-mandatory fees also referred to as Differential Tuition
- Meals
- Room & board (The student must be enrolled at least half time to qualify)
- Textbooks & supplies
- Other equipment required to attend, to include special needs services



Helpful tip:

- Prepaid529 benefits can be rolled over to an Invest529 account for use towards K-12 tuition, student loan repayment, or registered apprenticeship programs. Request a rollover using the [Move Funds or Change Investment Portfolio Form](#) in your online account.

## ELIGIBLE EDUCATIONAL INSTITUTIONS

Prepaid529 funds may be used at any college, university, or vocational school in the U.S. or abroad that participates in federal financial aid programs.

Search for eligible schools or school codes on the U.S. Department of Education's website, [www.studentaid.ed.gov/sa/fafsa](http://www.studentaid.ed.gov/sa/fafsa).

## FINANCIAL AID AND SCHOLARSHIP

### Impact on financial aid

In most cases, when the student is a dependent and resides with the parent who owns the Virginia529 account, the value of all accounts owned are included as an asset of the account owner when calculating federal financial aid. These accounts will be assessed at a maximum of 5.64 percent of the value when calculating the Expected Family Contribution (EFC) for financial aid eligibility.

If the student is a dependent, the Virginia529 account will be considered a parent asset. If the student is not a dependent, the account is considered a student asset. Funds withdrawn and sent directly to the student beneficiary of an account owned by someone other than the parent or student (a grandparent, for example) are considered reportable income for the beneficiary.

Helpful tips:

- Some schools require additional information to determine financial aid awards. Inclusion of 529 accounts owned by someone other than the student or custodial parent depend on the school's requirements.
- The best resource for detailed financial aid information is the student's school's financial aid office or a college access or financial aid advisor in your area.

### Completing the Free Application for Federal Student Aid (FAFSA)

In most cases, all Virginia529 accounts owned by the parents and students must be reported, including accounts for a different beneficiary.

FAFSA requires the total account value as of the date you submit the form. Access your total account value online at Virginia529.com by following the steps below:

1. Visit Virginia529.com and select “My Account” to log in or create an online user profile.
2. After logging in, scroll down to the Account Summary section. The total value of your accounts can be found at the bottom.

Withdrawals made to the student beneficiary from a 529 account that is owned by someone other than the parent or student must also be reported.

Helpful tip:

- When submitting the total account value of a Prepaid529 account, report the value of payments made on each contract, plus the Prepaid529 reasonable rate of return earned, less any benefits already paid out. This value is called the “refund value” in your online account summary.

## Scholarships and your Virginia529 account

529 accounts should not affect receipt of merit-based financial aid, like academic or athletic scholarships, and may be used to pay for qualified higher education expenses not covered by a scholarship or retained for future years, for either undergraduate or graduate school expenses. A scholarship refund may also be requested from your Virginia529 account, penalty-free, up to the amount of the scholarship, but not more than the minimum benefit amount. Requests for refunds must be submitted each semester and include documentation of the scholarship.

Helpful tips:

- Scholarships often cover the same expenses covered by Prepaid529 benefits. Work with the institution’s financial aid office to coordinate scholarship and Prepaid529 benefits.
- NCAA scholarship rules may impact 529 withdrawals – contact your school to discuss any interplay between your accounts and any NCAA scholarship.

**NOTE:** Scholarships may include grants awarded to students for academic, athletic, musical or other special abilities, certain tuition remission benefits for children of university employees and appointments to a United States military academy. Scholarships do not include need-based financial aid, including student loans or work-study programs.

## TAX INFORMATION

### Keep accurate records

You are responsible for maintaining documentation of all qualified higher education expenses. No documentation is required to be submitted with a withdrawal request, but should still be retained for your records and tax purposes. This includes copies of tuition invoices, meal plan contracts, documentation of rent if living off campus, receipts for textbooks, and other qualified higher education expenses.



### Tax treatment of withdrawals

Earnings on Virginia529 accounts grow free from federal and Virginia state taxes (for Virginia state taxpayers) and are excluded for income tax purposes when funds are used to pay for qualified higher education expenses.

### Non-qualified withdrawals

The earnings portion of non-qualified withdrawals are taxable as ordinary income and, unless an exception applies, are subject to a federal penalty of 10 percent on the taxpayer’s federal tax return. Non-qualified withdrawals may result in the recapture of prior Virginia income tax deductions for Virginia taxpayers. Non-Virginia taxpayers should contact their state’s department of taxation for more information.

Exceptions to the non-qualified withdrawal rules include: a withdrawal made due to the beneficiary’s death, disability or receipt of a scholarship. Exceptions are not subject to the 10 percent penalty or recapture of income tax deductions, but the earnings portion is taxed as ordinary income.

## Reporting withdrawals in your tax returns

It's not required to report withdrawals used for qualified higher education expenses on your federal tax return. Virginia529 will issue an IRS Form 1099-Q (Qualified Tuition Program Payments) each year in which a withdrawal is made. The Form 1099-Q may also be accessed through your Virginia529 online account.

- For withdrawals made payable to the account owner, the Form 1099-Q is sent to the account owner.
- For withdrawals made payable to the beneficiary or an institution, the Form 1099-Q is sent to the beneficiary. The beneficiary may also create an online user profile to view the Form 1099-Q.
- Non-qualified withdrawals will incur a 10 percent penalty on the earnings portion of that non-qualified withdrawal, and should be reported as income by the Form 1099-Q recipient.

Helpful tips:

- The same qualified higher education expense may not qualify for more than one tax benefit (for example, tax-free withdrawals and a federal tax credit).
- For more information, review the 1099-Q Fact Sheet.

**NOTE:** For more information on the tax treatment of withdrawals see IRS Publication 970, "Tax Benefits for Education," available at [irs.gov](https://www.irs.gov). You may also call the IRS at 1-800-829-3676 **OR** consult your tax adviser.

**IMPORTANT NOTICE: Individual tax situations vary greatly. Please consult a tax advisor 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 Withdrawal Guide should not be construed as such with respect to the consequences for any particular individual as a result of contributions to, investment of, or withdrawals from a Virginia529 account.**

## ADDITIONAL RESOURCES

### View a webinar about using your Prepaid529 benefits

- Visit [www.virginia529.com/webinars](https://www.virginia529.com/webinars), then select "Managing My Account."
- Register for a live webinar or view an on-demand video.

### Read the Program Description

- Visit [www.virginia529.com/invest/prepaid](https://www.virginia529.com/invest/prepaid).
- Download or view a copy Prepaid529 Program Description & Master Agreement.