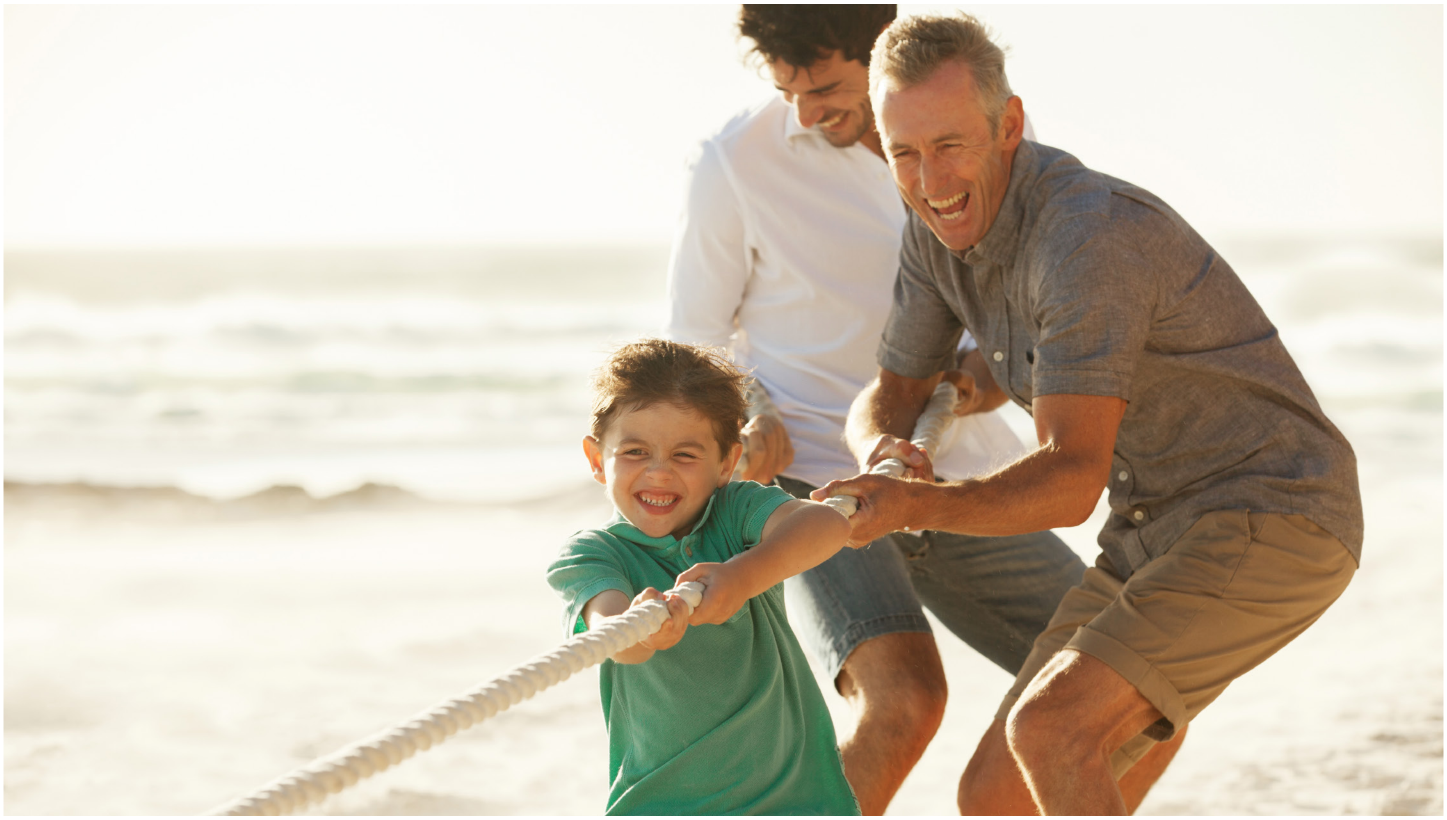
WELLS FARGO Wealth & Investment Management

Saving for college

Giving children and grandchildren the opportunity of a lifetime

Services offered by Wells Fargo Advisors



Whether your children or grandchildren are toddlers or teenagers, it's only a matter of a time before they leave the family home, probably as they head off to college. The cost of sending just one child to college for four years can be staggering, and tuition and fee hikes regularly outpace inflation. Rather than sending your children or grandchildren into the world with the burden of student-loan debt, you can save to help cover at least a portion, if not all, of their higher-education expenses.

The College Board Advocacy and Policy Center reported that over the past decade, college tuition and fees have rapidly increased. The table to the right demonstrates how average college costs would continue to increase at national average annual inflation rates based on a 10-year historical average.

Fortunately, parents who intend to cover or contribute to their children's education costs have many ways to save. If you've not yet looked into an education savings plan, your financial professional can help you choose among a variety of savings vehicles, including 529 plans, Education Savings Accounts (ESAs), and custodial accounts offered through Wells Fargo Advisors.

Estimated annual college costs

	Public*	Private*
2023	$24,490	$54,670
2028	$27,708	$63,378
2033	$31,349	$73,472
2038	$35,469	$85,174

*Total yearly costs for in-state tuition, fees, books, and room and board (transportation and miscellaneous expenses not included). Base is 2022 – 2023 school year. Costs for all future years projected by Wells Fargo and Company and its Affiliates in November 2022 assuming a 2.5% national average increase per year for public and 3.0% for private (based on a 10-year historical average).
Source: Trends in College Pricing and Student Aid. collegeboard.org

Tax-advantaged options

With both 529 plans and ESAs, earnings may be tax-free as long as withdrawals are used to pay for qualified education expenses.

529 savings plans

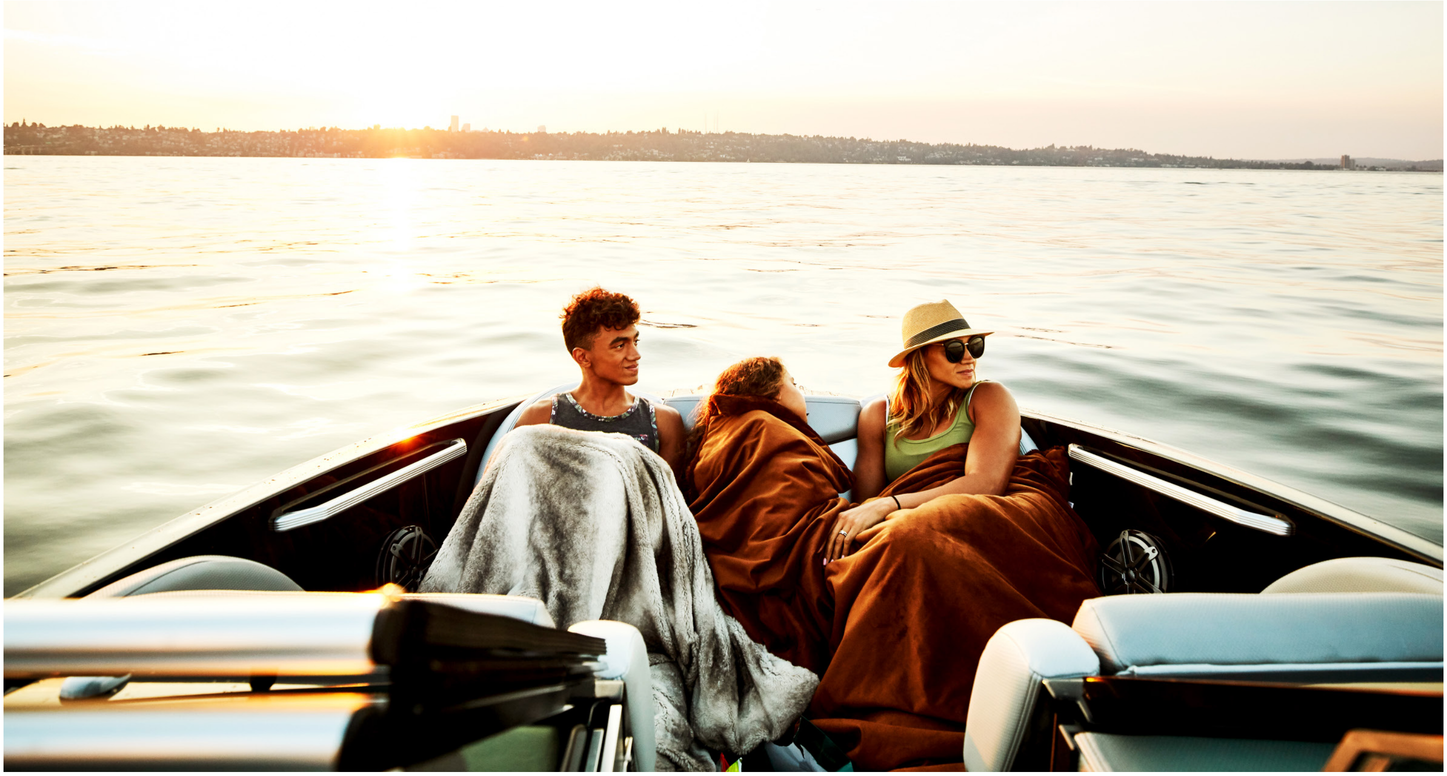
Most states and the District of Columbia offer 529 college-savings plans. Most are national plans and are available to residents of any state, although roughly half of the states' plans offer in-state residents additional state-income-tax benefits. If considering an out-of-state 529 plan, be sure to weigh the tax implications.

529 plans allow annual tax deferral on account earnings; potential for tax-free distributions for qualified education expenses; no income limitations for participation; higher contribution limits than ESAs; and minimal burden of investment decisions. These plans also provide flexibility surrounding changing 529 beneficiaries to other eligible family members as long as it is not a custodial 529.

529 plans offer no guarantees on investment returns, but — like a 401(k) — they let you choose an investment strategy from a particular plan's options. At times, an out-of-state plan may offer advantages — such as better investment performance, plan features, or flexibility — that could outweigh the tax benefits of participating in your state's plan. Be sure to discuss and evaluate your options with your financial professional and tax advisor.

An investment in a 529 plan will fluctuate such that the shares when redeemed may be worth more or less than the original investment. There are no guarantees that an investment in a 529 plan will cover higher-education expenses. Investors should consult the plan's offering document for the fees and expenses associated with that plan. You should consider a 529 plan's investment objectives, risks, charges, and expenses carefully before investing. The plan's official statement, which contains this and other important information, should be read carefully before investing.

Before investing, an investor should consider whether the investor's or designated beneficiary's home state offers any state tax or other benefits that are available only for investments in that state's 529 plan. The availability of such tax or other benefits may be conditioned on meeting certain requirements. Discuss these items with your tax advisor. Wells Fargo and Company and its Affiliates are not tax or legal advisors.



ESAs

An ESA allows annual tax deferral on account earnings and the potential for tax-free qualified distributions for elementary, secondary, and post-secondary education. The maximum annual contribution is up to $2,000 per beneficiary.

Eligibility to contribute to an ESA is based on the contributor's modified adjusted gross income (MAGI). Single taxpayers whose MAGI is less than $95,000 and joint taxpayers whose MAGI is less than $190,000 can make the full $2,000 nondeductible contribution. The allowable contribution is phased-out for single taxpayers whose MAGI is between $95,000 and $110,000 and for joint filers whose MAGI is between $190,000 and $220,000. If your MAGI exceeds these limits, you cannot contribute.

Investment-based college-savings programs come in many shapes and sizes. That's why a financial professional's insight and guidance is so valuable. He or she will help you choose the right savings plan and can also help you select the plan's investment alternatives that fit your needs and risk tolerance.

For a list of qualified expenses for 529 plans or ESAs, refer to IRS Publication 970 at **irs.gov**. Consult your tax advisor regarding state and local tax rules.

Tax credits

The American Opportunity Credit provides a tax credit of up to $2,500 of tuition and related expenses paid during any of the first four years of college. The credit starts to phase out at $80,000 Modified Adjusted Gross Income (MAGI) for single filers and $160,000 for joint filers. It is completely phased out at $90,000 and $180,000, respectively.

Lifetime Learning Credit. Unlike the American Opportunity Credit, the Lifetime Learning Credit can be taken for any year of postsecondary schooling and does not require at least half-time enrollment or that the coursework lead to a degree. The Lifetime Learning Credit maximum is $2,000 per return, or 20% of qualified tuition and fees up to $10,000. Income limitations will reduce the credit for joint filers with MAGIs more than $160,000 and for single filers with more than $80,000 for 2023. Education tax credits are calculated on IRS Form 8863.

Taxable accounts

Rather than investing in an ESA or 529 plan, you may choose to save using a taxable account. If so, you'll have to decide whether to invest in your name or your child's name.

Investing in your name

To maintain maximum control over the assets in your college-savings account, invest in your own name. Under this arrangement, you may invest however you choose and give your child access to the account's assets when you decide to do so — if at all. You'll pay taxes on the account's earnings at your own marginal income tax rate.

Investing in your child's name

Tax law contains provisions that limit the effectiveness of investing in a child's name, but it may still make sense for parents willing to cede control over an account to a child. The standard deduction for a dependent who has only unearned income (no wages) is $1,250 in 2023. Your child must pay taxes on any unearned income in excess of that amount, although rates vary, as described to the right.

The "kiddie tax"

The tax rules governing a dependent child's tax rates are known as the "kiddie tax rules." After the initial $1,250 deduction (assuming unearned income only), a dependent child younger than age 19 (or 24 for a full-time student) pays taxes on the next $1,250 at his or her own tax rate, which is typically 10% (0% for long-term capital gains or qualified dividends). If the dependent child's account earns more than $2,500, the excess is taxed at the higher of the parents' top marginal rate or the child's own rate. The "kiddie tax" rules do not affect children who are 18 or older and provide more than half of their own support (based on their own earned income).

Suppose your 12-year-old daughter has $80,000 in an investment account that was built over the years through gifts from various relatives. You invest the money, and it generates $3,500 in nonqualifed dividends in 2023. Your daughter has no other earned or unearned income. If your top marginal tax rate is 35%, your daughter's tax liability on the interest income would be computed as shown below.

"Kiddie tax" example

Investment income	$3,500
Less: standard deduction	($1,250)
Taxable income	**$2,250**
Second $1,250 taxed at child's rate (10%)	$125
Amount in excess of $2,500 taxed at parent's rate ($1,000 x 35%)	$350
Total tax liability	**$475**

Note: This example has been simplified for illustrative purposes. Actually, a side calculation is done on the child's return or the income is included on the parents' return and taxed at their top marginal bracket. For further explanation, consult your tax advisor.

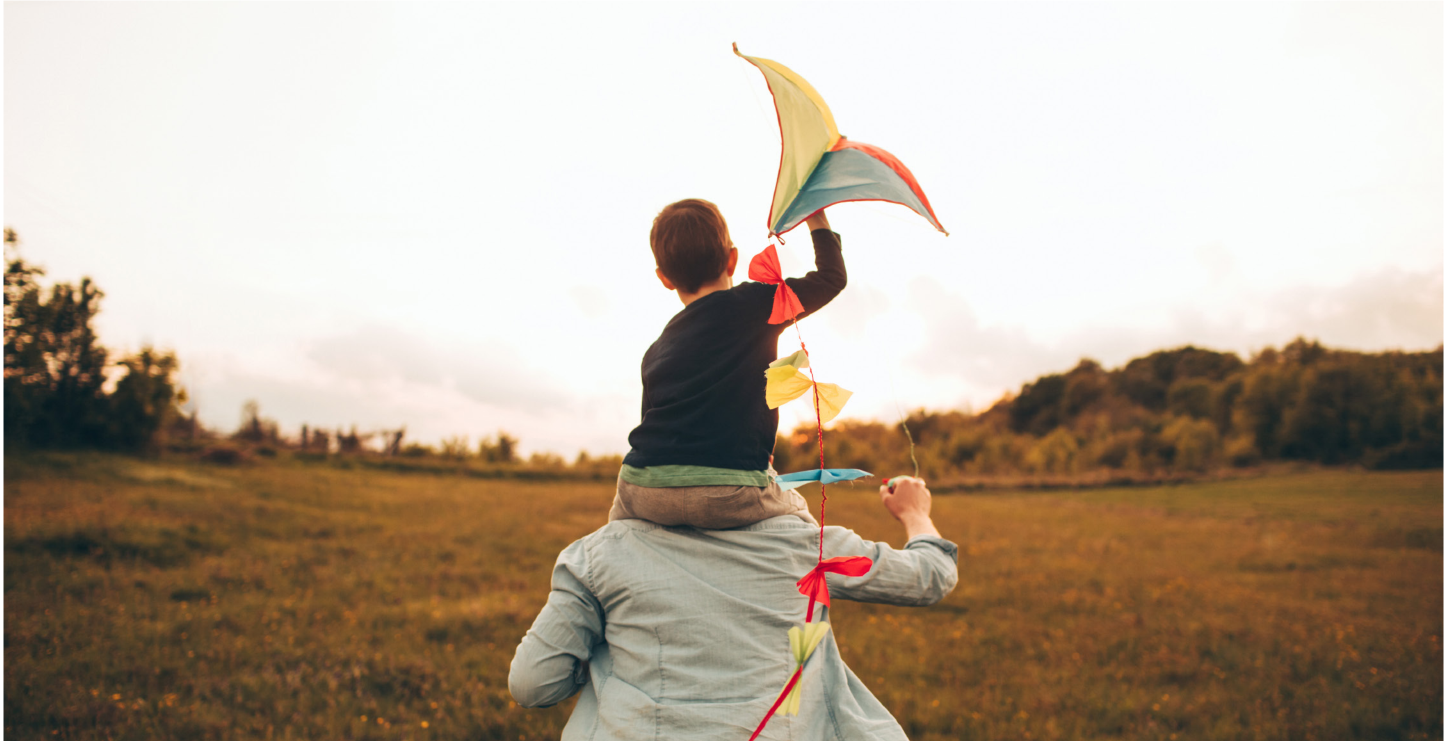
Custodial accounts

If you decide to invest in your child's name, you will probably do so in a custodial account. In such an account for a minor, an adult serves as custodian and holds supervisory powers over the investments.

Each state has statutes that govern the legal requirements of custodial accounts and conform to either the Uniform Gift to Minors Act (UGMA) or the Uniform Transfer to Minors Act (UTMA). The following policies apply to all custodial accounts:

- All gifts to minors are irrevocable, and the donor of the gifts retains no right to the property. Distributions should be used for the child's benefit. Unlike an ESA or 529 savings plan, the funds are not restricted to education expenses only. In many cases, however, custodial funds are used to pay for education expenses that are not considered qualified expenses under the ESA or 529 rules.
- The custodian manages the investments, making decisions concerning buying and selling, reinvesting earnings, and so forth. He or she must act in the child's best interest and not for himself or herself.
- The account's ownership is in the minor's name and Social Security number. The custodian holds supervisory powers only. When the child reaches the age that custodianship ends, as specified by the state in which the account was created, the custodian is obligated to transfer assets to the child.
- Only one child may be named on a custodial account.

Taxes levied on a custodial account depend on your child's age and whether the account's income was generated through taxable or tax-free investments. The "kiddie tax" rules, as explained on page 5, usually apply.



Make educated decisions

	529 savings plans	ESA	UGMA/UTMA	Savings Bonds
How much can you invest?	Perhaps as little as $10 a month or as much as vendor allows; varies by state. (Donor subject to annual gift tax exclusion of $17,000 or five-year accelerated gift.)	$2,000 maximum annual contribution per child up to age 18 (over 18 if beneficiary has special needs).	Unlimited contributions, but donor should consider the $17,000 annual gift-tax exclusion.	Up to $10,000 per year of Series EE and I bonds electronically and an additional $5,000 in paper Series I bonds bought with IRS tax refund (per Social Security number).
Who controls the account?	Account owner (not beneficiary).	Parent or other "responsible individual."	The custodian until the minor reaches the age the custodianship terminates (varies by state).	Bond owner.
Tax treatment	Tax-deferred growth. Qualified withdrawals may be federal-tax-free. Earnings portion of distributions may be taxable in years the American Opportunity Credit or Lifetime Learning Credit is used if same expenses used to qualify for credit. Contributions may qualify for a state-income-tax deduction.	Tax-deferred growth. Qualified withdrawals may be federal-tax-free. Earnings portion of distributions may be taxable in years the American Opportunity Credit or Lifetime Learning Credit is used if same expenses used to qualify for credit.	While the child/student is under age 24 and a dependent, subject to "kiddie tax" rules. If child is over age 18 and has earned income greater than half his/her support, "kiddie tax" no longer applies.	Interest is taxable unless higher-education exclusion applies. See IRS Form 8815 for details. Interest income might not be tax-free in a year when American Opportunity Credit or Lifetime Learning Credit is used if same expenses used to qualify for credit.
Restrictions on use of money	Withdrawals must be used for qualified education expenses at eligible postsecondary institutions, registered apprenticeship programs or up to $10,000 annually per beneficiary for tuition at elementary or secondary schools. Qualified expenses also include up to $10,000 lifetime for qualified student loan repayment. Beginning in 2024, a provision passed in Secure Act 2.0 allows a direct trustee-to-trustee rollover from a 529 plan to a ROTH IRA for the 529 plan beneficiary, subject to certain limits and requirements. State laws may vary.	Withdrawals must be used for qualified elementary, secondary, or post-secondary education expenses.	Should be used for the child's benefit.	No restrictions. However, to qualify for interest exclusion, withdrawals must be used for qualified higher-education expenses and meet other requirements as per Form 8815.

Make educated decisions

	529 savings plans	ESA	UGMA/UTMA	Savings Bonds
Advantages	Anyone can make contributions. Account owner retains control. No family income restrictions. Can transfer to an eligible family member without penalty or to another qualified tuition program; once every 12 months if for the same beneficiary.	Anyone who is under the MAGI limits can make contributions subject to the overall limit. Can transfer account to eligible family member. Withdrawals can also be used for various qualified K-12 expenses. Self-directed investment choices.	Anyone can make contributions. Withdrawals not restricted to qualified educational expenses. Possibly lower taxation on investment income than if held in parent's name. No family income restrictions.	Guaranteed minimum return. Tax on interest income can be deferred until the earlier of redemption or maturity. It may be tax free if you qualify for the education exclusion.
Disadvantages	Tax and 10% penalty on earnings for nonqualified withdrawals. Investment options are limited to those offered by a particular plan. May only change investment options twice per calendar year or when changing beneficiary.	Tax and 10% penalty on earnings for nonqualified withdrawals. Not available to taxpayers with MAGIs over $220,000 (joint) or $110,000 (single). Low contribution limit.	No tax deferral. Child gains complete control at age when custodianship ends (varies by state).	Low rate of return. Eligibility for interest exclusion begins phase-out for MAGIs above $137,800 (joint) or $91,850 (single) for 2023. Benefit of interest exclusion is limited to person(s) taking a dependency exemption for the student on Form 1040.

Start now

It's common to assume that saving will be easier in the future when you're earning more, but as your family and income grow, so do your expenses associated with your standard of living. If you wait until your kids or grandkids are closer to college age, you may find you've waited too long and might face the prospect of scaling back the family's finances in other ways to save for hefty tuitions, fees, and living expenses.

Also, when you start early, college savings may earn substantially more over time through the power of compounded growth. For example, suppose you start putting aside $100 every month for an 8-year-old child. Assuming a 5% annual growth rate, you'll save $15,592 by the time your child is ready for college but will have invested only $12,000 out-of-pocket.

If you wait until your child is 15 to start saving, you'll have to put more money aside each month to save the same amount, and your out-of-pocket investment will be much greater. For example, at the same 5% annual growth rate, it would take $400 per month to save $15,566 in time for college, and you'd have invested $14,400 out-of-pocket. This information is hypothetical and is provided for informational purposes only. It is not intended to represent any specific return, yield, or investment, nor is it indicative of future results.

How do you plan to meet the ever-rising costs of college? Contact your financial professional today to discuss your education funding options.