COMPARE

A guide to education savings options for 2020

INVESTMENT PRODUCTS: NOT FDIC INSURED • NO BANK GUARANTEE • MAY LOSE VALUE

This material is to support interest in the Scholars Choice Program. For more information contact your Financial Professional.

COMPARISON OF SELECTED EDUCATION SAVINGS OPTIONS (Based on 2020 limits)

Along with saving for retirement and a home, saving for your children's education is one of the most challenging, but rewarding, financial expenses your family will face. That's why it's important to work with your financial professional to decide which education savings investment product fits into your unique financial planning strategy. You certainly have a lot of choices.

	Description	Who Can Invest?	Income Limit	Maximum Age Limit	How Can Funds Be Used?	Where Can Funds Be Used?	Maximum Contribution/ Balance Limit
Scholars Choice® College Savings Program	State-sponsored, tax-advantaged education savings vehicle used for qualified higher education expenses.	Anyone (relative or non-relative) who is a U.S. citizen or resident alien.	None	None	**Higher education:** Tuition, fees, room and board, books, computers, related software, peripheral equipment and Internet access, and required supplies and equipment. **Apprenticeship programs:** Fees, books, supplies and equipment required for the program.[1] **Qualified education loan payments:** Subject to a lifetime limitation of $10,000.[2] **K–12 tuition expenses:** Up to $10,000 per year can be used, on a federally tax-qualified basis, for public, private, religious elementary or secondary (K–12) school tuition.	Any educational institution eligible to receive federal financial aid: colleges, universities, graduate schools, community colleges and certain proprietary and vocational schools. Includes some schools outside of U.S.[3]	Balance limit of $400,000 in aggregate for all accounts for the same beneficiary (in all 529 plans established and maintained by the state of Colorado). No contributions allowed if account balance is at or above balance limit.[4]
Coverdell Education Savings Account	Tax-advantaged education savings vehicle for qualified K–12 and higher education expenses.	Anyone (relative or non-relative) who is a U.S. citizen or resident alien.	Individuals whose modified adjusted gross income does not exceed applicable limit.[6]	**Contributions:** Beneficiary must be under age 18 or a special-needs beneficiary. **Distributions:** Beneficiary must use account assets by age 30 unless a special-needs beneficiary.	**Higher education:** Tuition, fees, room and board, books, special-needs services, and required supplies and equipment. **K–12 education:** Tuition, fees, books, special-needs services and required supplies and equipment. Also may include room and board, uniforms, transportation, after-school programs, computer equipment and software, Internet access and tutoring.	Any educational institution that is eligible to receive federal financial aid: colleges, universities, graduate schools, community colleges, and certain proprietary and vocational schools. Includes some schools outside of U.S.[3] May also be used for public, private or religious school that provides elementary or secondary education (K–12).	$2,000 per year in aggregate for all accounts for the same beneficiary. Subject to reduction within phaseout range based on modified adjusted gross income.[6]
Uniform Transfers/ Gifts to Minors Act Account (UTMA/ UGMA)	Custodial account managed for the benefit of a minor. The account is an irrevocable transfer of assets in a child's name.	Anyone (relative or non-relative) who is a U.S. citizen or resident alien.	None	Account ownership transfers to the minor upon reaching age of UTMA/UGMA termination.	No restrictions, except funds must be used for the benefit of the minor. At the age of UTMA/UGMA termination, the child owns and controls use of funds (doesn't have to be used for higher education).	No restrictions, except funds must be used for the benefit of the minor. At the age of UTMA/UGMA termination, the child owns and controls use of funds (doesn't have to be used for higher education).	No limit
Education Bond Program (U.S. Savings Bonds)	Series EE (issued after 1989) and Series I Savings Bonds may be used to fund qualified higher education expenses.	Anyone over age 24 before the bond's issue date who is a U.S. citizen or resident alien.	No restrictions on purchase. Federal income tax exemption for interest earned on bonds is limited to individuals whose modified adjusted gross income does not exceed applicable limit.[7]	None	**Higher education:** Tuition and fees, contributions to a qualified tuition program or Coverdell education savings account for bondholder, spouse or dependent.	Any educational institution that is eligible to receive federal financial aid: colleges, universities, graduate schools, community colleges, and certain proprietary and vocational schools. Includes some schools outside of U.S.[3]	Purchase limitations are set by the U.S. Treasury: $20,000 total per year/per person. Series I and EE Bonds: $10,000 each per year/per person.
Roth Individual Retirement Account	Tax-advantaged retirement vehicle that may also be used to fund qualified higher education expenses.	Anyone or their spouse who is a U.S. citizen or resident alien who has earned income.	Individuals whose modified adjusted gross income does not exceed applicable limit.[8]	None	If the account has been held for five years and the IRA holder is over age 59½, no restrictions. For premature withdrawals, earnings portion is generally subject to federal income taxes. Earnings portions of premature withdrawals also subject to an additional 10% federal tax unless used for higher education of IRA holder, spouse, child or grandchild. Other exceptions to additional 10% federal tax may apply.	No restrictions. However, in order to avoid an additional 10% federal tax for premature withdrawals, funds must be used at an educational institution that is eligible to receive federal financial aid: colleges, universities, graduate schools, community colleges, and certain proprietary vocational schools. Includes some schools outside of U.S.[3]	Annual contribution limit for 2020 is $6,000 ($7,000 for taxpayers age 50 and older) per account. Subject to reduction within phaseout range based on modified adjusted gross income.[8]
Taxable Account	Any taxable account	Anyone	None	None	Any use	No restrictions	No limit

	State Tax Deductibility of Contributions[5]	Federal Income Tax Treatment of Earnings	Federal Income Tax Treatment of Qualified Withdrawals	Annual Limit for Federal Gift Tax Exclusion	Control of Funds	Ability to Change Beneficiaries	Choice of Investment Options	Tax Treatment of Non-Qualified Withdrawals
Scholars Choice® College Savings Program	Yes, for Colorado taxpayers. Contributions (excluding rollovers or transfers) are deductible from Colorado state income tax up to the extent of Colorado taxable income for that year, subject to recapture in subsequent years in which non-qualified withdrawals or rollovers to a non-Colorado 529 plan are made.	Earnings grow free from federal income taxes while in the account.	Qualified withdrawals are free from federal income taxes.	$15,000 ($30,000 for married couples) per beneficiary in a single year; $75,000 ($150,000 for married couples) per beneficiary in a single year if account owner elects to treat as gift spread over five years.	Account owner maintains control.	Yes, to another qualified member of the current beneficiary's family.	Professionally managed portfolios. You may change your investment option twice per calendar year, or whenever you change your beneficiary.	The earnings portion of a non-qualified withdrawal is subject to federal income taxes and any applicable state/local income taxes, as well as an additional 10% federal tax.
Coverdell Education Savings Account	No	Earnings grow free from federal income taxes while in the account.	Qualified withdrawals are free from federal income taxes.	$2,000 contribution limit is below Annual Limit for Federal Gift Tax Exclusion.	Beneficiary's parent or guardian maintains control while beneficiary is a minor. Depending on terms of account, in some cases, control may be transferred to beneficiary when beneficiary reaches age of majority.	Yes, but limited to another qualified member under age 30 of the current beneficiary's family.	Unlimited, with the exception of life insurance contracts and "collectibles."	The earnings portion of a non-qualified withdrawal is subject to federal income taxes and any applicable state/local income taxes, as well as an additional 10% federal tax.
Uniform Transfers/ Gifts to Minors Act Account (UTMA/ UGMA)	No	The "kiddie tax" applies to a beneficiary who is under 19 or a full-time student under 24, but will not apply if the beneficiary has a job earning income for more than half of his or her support. If "kiddie tax" applies: · First $1,100 of unearned income is free from federal income taxes. · Next $1,100 of unearned income is taxed at child's tax rate. · Unearned income above $2,200 is generally taxed at the parent's marginal tax rate. Note: The above rules apply to tax year 2020. A taxpayer may elect to apply the above rules to tax year 2018 and/or tax year 2019 instead of rules that would otherwise tax a child's unearned income at income tax rates applicable to trusts and estates.	Not applicable. See "Federal Income Tax Treatment of Earnings."	$15,000 ($30,000 for married couples) per beneficiary in a single year.	Custodian controls investments until beneficiary reaches age of UTMA/ UGMA termination. Upon reaching age of UTMA/ UGMA termination, ownership and control of funds transfers to the beneficiary.	No	Unlimited	No restrictions as long as funds are being used for the benefit of the minor. See "Federal Income Tax Treatment of Earnings."
Education Bond Program (U.S. Savings Bonds)	No	Federal taxes can be deferred until redemption or maturity. Earnings grow free from state/local income taxes.	Based on income level, all or part of the interest received on redemption may be tax-free if used for qualified higher education expenses.[4] Interest on U.S. Savings Bonds is exempt from state and local income taxes.	Not applicable	Bondholder controls the investment.	Yes, but limited to bondholder, spouse or dependent.	Interest-earning bond backed by the full faith and credit of the U.S. government.	No penalty. Interest on redeemed bonds is included in federal income, excluded from state income.
Roth Individual Retirement Account	No	Earnings grow free from federal income taxes while in the account.	If the account has been held for five years and the IRA holder is over age 59½, distributions (including those for education expenses) are tax-free and penalty-free. For premature withdrawals, earnings portion generally taxed as ordinary income, but not subject to an additional 10% federal tax when used for qualified higher education expenses.	Not applicable	Account owner maintains control.	Yes. For future premature withdrawals, earnings portion is subject to an additional 10% federal tax unless used for higher education of IRA holder, spouse, child or grandchild.	Unlimited, with the exception of life insurance contracts and "collectibles."	The earnings portion of premature withdrawal generally is subject to federal income taxes and any applicable state/local income taxes. The earnings portion of premature withdrawals is subject to an additional 10% federal tax unless used for qualified higher education expenses. Other exceptions to additional 10% federal tax may apply.
Taxable Account	No	Non-qualified dividends, interest and short-term capital gains are taxed to the owner at ordinary income rates. Qualified dividends and long-term capital gains are taxed at long-term capital gains rates.	Not applicable. See "Federal Income Tax Treatment of Earnings."	Not applicable	Account owner maintains control.	Not applicable	Unlimited	Not applicable. See "Federal Income Tax Treatment of Earnings."

The federal Tax Cuts and Jobs Act (TCJA), which was signed into law in December 2017 and became effective January 1, 2018, expanded the definition of a qualified higher education expense to include up to $10,000 (federal tax-free withdrawals) per year in tuition expenses at private, public and religious elementary and secondary schools (K–12).

The state tax consequences of using 529 plans for elementary or secondary education tuition expenses will vary depending on state law and may include recapture of tax deductions received from the original state and may also include taxes and penalties. Some states (such as Colorado) do not offer state tax deductions or tax credits for K–12 tuition, and other restrictions may apply.

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1 Program must be registered and certified with the U.S. Department of Labor.
2 Subject to a lifetime limitation of $10,000 for the designated beneficiary and each sibling of the designated beneficiary. Some states (such as Colorado) do not offer state tax deductions on withdrawals used to make payments on a qualified education loan. Such withdrawals, while qualifying for treatment as a qualified withdrawal for federal tax purposes, will be treated as a non-qualified withdrawal for Colorado state tax purposes.
3 To see a list of eligible educational institutions, visit fafsa.ed.gov.
4 The earnings portion of rollovers from another Section 529 plan may be made to an account where the balance limit has been reached.
5 State tax treatment varies by state.
6 For the tax year 2020, the Coverdell ESA modified adjusted gross income limit phaseout range for individual tax filers is $95,000–$110,000. For married taxpayers filing jointly, the 2020 income limit phaseout range is $190,000–$220,000.
7 For the tax year 2020, the Education Bond Program modified adjusted gross income limit phaseout range for individual tax filers is $82,350–$97,350. For married taxpayers filing jointly, the 2020 income limit phaseout range is $123,550–$153,550.
8 For the tax year 2020, the Roth IRA modified adjusted gross income limit phaseout range for individual tax filers is $124,000–$139,000. For married taxpayers filing jointly, the 2020 income limit phaseout range is $196,000–$206,000.
9 Gifts that exceed the annual gift tax exclusion amount may qualify for the Lifetime Gifting Exemption. Please consult your tax advisor.
10 Source: Savingforcollege.com
11 Note: While Arkansas is not a so-called "tax parity state," to the extent a full state tax deduction cannot be taken for contributions to a non-Arkansas sponsored 529 plan, Arkansas taxpayers can still take a partial deduction for a contribution to the Scholars Choice 529 Plan. Speak with your financial professional for details.

Additional considerations

Investment option changes

Scholars Choice investment options are designed to meet a wide spectrum of investor needs. As you make this important decision, you should consider that you can only change the investment option for your account twice each calendar year or upon changing the beneficiary on the account.

Maximum aggregate account balance limit

The combined maximum account limit for the Scholars Choice 529 College Savings Program (and all other 529 programs established and maintained by the state of Colorado) for a particular beneficiary is $400,000. Although account balances can grow beyond that amount, no additional contributions can be made once the balance reaches $400,000. If the balance falls below $400,000, additional contributions can be made.

Gift and estate taxes (based on 2020 limits)

Contributions to an account for a beneficiary between $15,000 and $75,000 made in one year can be prorated over a five-year period without incurring federal gift taxes or reducing the contributor's unified estate and gift tax credit. If the account owner dies before the end of the five-year period, a prorated portion of the contribution will be included in his or her taxable estate. If you contribute less than the $75,000 maximum, additional contributions can be made without incurring federal gift taxes, up to a prorated level of $15,000 per year.[9] Federal gift taxation may result if a contribution exceeds the available annual gift tax exclusion amount remaining for a given beneficiary in the year of contribution.

Non-qualified withdrawals

The earnings portion of a non-qualified withdrawal is subject to federal income taxes and any applicable state and local income taxes, as well as an additional 10% federal tax.

Colorado state tax deduction

Contributions (excluding rollovers) to the Scholars Choice Program in a tax year are deductible from Colorado state income tax to the extent of Colorado taxable income for that same year, subject to recapture in subsequent years in which non-qualified withdrawals are made.

State tax deduction in other states[10]

Currently, tax deductions may also be taken for contributions to the Scholars Choice Program in the following states: Arizona, Arkansas[11], Kansas, Minnesota, Missouri, Montana and Pennsylvania. Tax benefits are subject to conditions and limitations. Ask your financial professional for details.

SCHOLARS CHOICE®
COLLEGE SAVINGS PROGRAM

Scholars Choice offers proven multi-manager active fund management, a wide variety of investment options, low fees and competitive pricing. No matter how much you need to save, or how long you have, Scholars Choice has an option to help you reach your education goals.

Investment options

Automatic Allocations

Scholars Choice offers Age-Based and Years to Enrollment investment options. The asset allocation of these options is adjusted according to a predetermined schedule, gradually shifting from more aggressive in early years to more conservative over time.

- **Age-Based** — allocation is determined based on the age of the beneficiary
- **Years to Enrollment** — allocation is determined based on the number of years to the beneficiary's enrollment date

Static Multi-Fund Allocations

In these six options, the asset allocation will stay the same as long as the account owner remains invested. Of course, an account owner can change investment options up to twice per calendar year or upon a change in beneficiary.

The Static Multi-Fund allocation choices range from aggressive to conservative:

- All Equity
- 80% Equity
- Balanced 50/50
- 80% Fixed Income
- All Fixed Income
- Cash Reserve[12]

Individual-Fund Options

Want to build your own portfolio — or complement another strategy by emphasizing a particular asset class? Consider our Individual-Fund options, each of which invests 100% of its assets in a single underlying fund.

- U.S. Aggressive Equity
- U.S. Core Equity
- U.S. Small Cap Equity
- International Equity
- Global Fixed Income

Investments that fit your family

Work with your financial professional to review your overall financial planning strategy, and consider Scholars Choice for your education savings needs. Your financial professional can provide you with complete details about the Program and enrollment materials.

Please remember that investments in Scholars Choice are market-based and may go up or down in value.

[12] Invests in a single underlying government money market fund.

While the Cash Reserve Option will invest all of its assets in a money market mutual fund and will value its units based on the underlying money market fund share value, the Cash Reserve Portfolio itself is not a money market mutual fund. The Cash Reserve Option will not seek capital appreciation and may underperform other investment options. You could lose money by investing in this investment option. Although the money market fund in which your investment option invests (the "underlying fund") seeks to preserve its value at $1.00 per share, the underlying fund cannot guarantee it will do so. An investment in this investment option is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The underlying fund's sponsor has no legal obligation to provide financial support to the underlying fund, and you should not expect that the sponsor will provide financial support to the underlying fund at any time.

About CollegeInvest collegeinvest.org

CollegeInvest is a not-for-profit division of the Colorado Department of Higher Education, and a trusted resource providing 529 college savings plans, financial education and scholarships for higher education.

Where can I find more information?

Visit www.scholars-choice.com.

An investor should consider the Program's investment objectives, risks, charges and expenses before investing. The Program Disclosure Statement and Participation Agreement (www.scholars-choice.com/pds) contains more information and should be read carefully before investing. If an investor and/or an investor's beneficiary are not Colorado taxpayers, they should consider before investing whether their home states offer 529 plans that provide state tax and other benefits such as financial aid, scholarship funds and protection from creditors that are only available to state taxpayers investing in such plans.

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974298-SCH2018 08/20