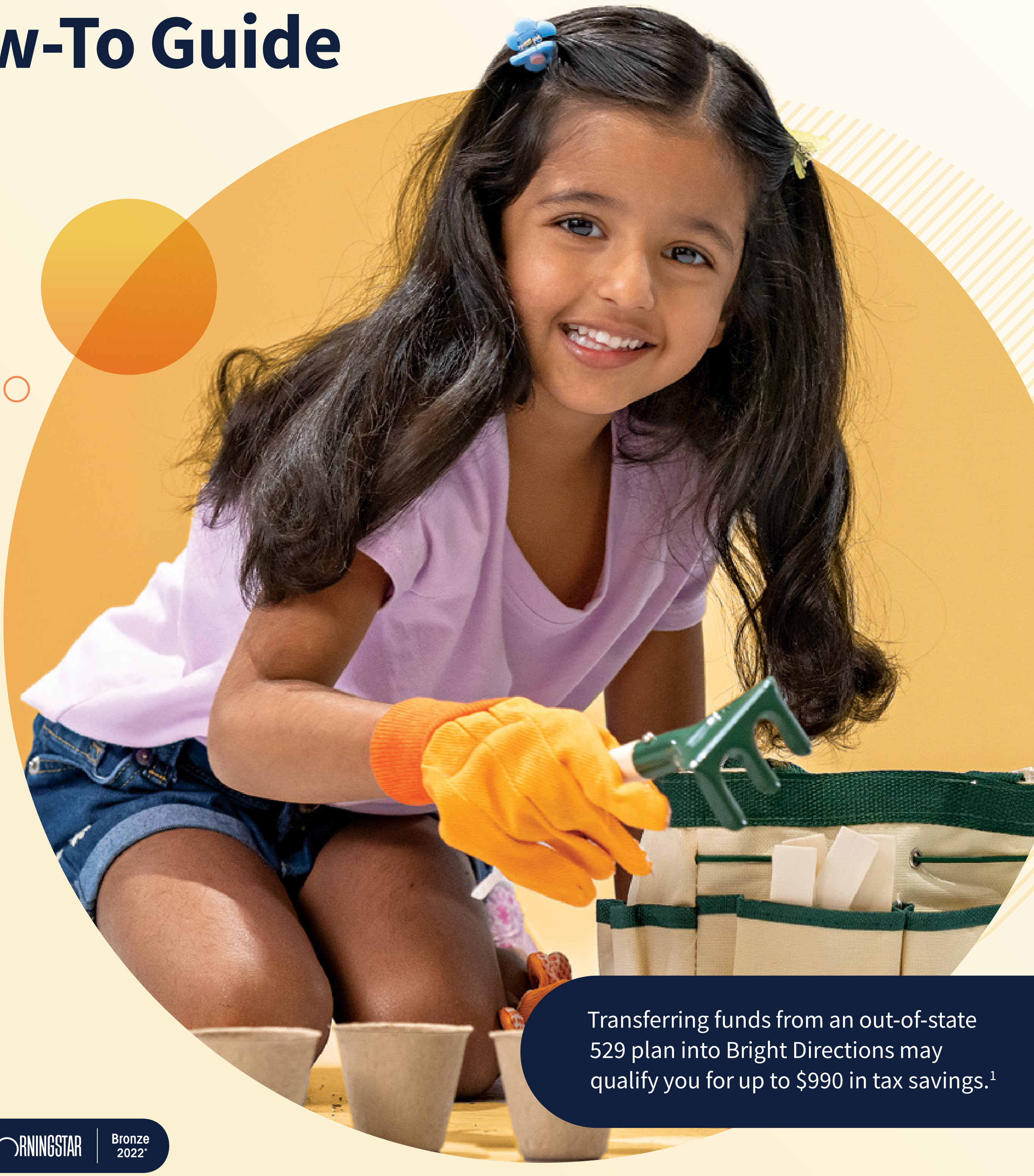
529 Rollover How-To Guide

brightdirections
Advisor-Guided 529 College Savings



Transferring funds from an out-of-state 529 plan into Bright Directions may qualify you for up to $990 in tax savings.[1]

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Stay in State and Save on Tax Day

Should your client roll over their out-of-state 529 to Bright Directions? That depends on a number of factors. But if they do, their contribution portion may be Illinois tax deductible.[2,3] Here's how to help make the decision that is right for them.

1. Run the Numbers

Illinois provides a sizable state income tax deduction for contributions, including rollovers, to Bright Directions. Important note: Only the contribution portion of a rollover — not the earnings — is eligible for the deduction.[2,3]

Non-Illinois 529 Balance	**$25,000**
Contribution Portion	$18,000
Earnings	$7,000

Amount Eligible for Illinois Tax Deduction

Up to $20,000 per year if filing jointly
Up to $10,000 per year for individual filers

2. Consider a Two-Step Rollover

With clients who have more than $20,000 in contributions to out-of-state 529 plans, a two-step rollover may maximize their tax benefit. However, make sure to look at all factors. With the attractive Bright Directions cost structure and investment lineup, it may make sense to roll over all dollars in one step. In this example, a couple is filing jointly:

Non-Illinois 529 Balance	**$45,000**
Contribution Portion (Tax-deduction eligible)	$36,000
Earnings	$9,000

80% of balance

To determine each year's rollover amount, divide the maximum annual tax deduction of the contribution portion by the contribution percentage of the 529 account balance.

$\frac{\text{\$20,000 tax deduction}}{\text{80\% contribution percentage}}$ = **Year One: Roll Over $25,000**

$\frac{\text{\$16,000 tax deduction}}{\text{80\% contribution percentage}}$ = **Year Two: Roll Over $20,000**

3. Watch the Rules

The IRS allows only one tax-free rollover per same beneficiary in a 12-month period. Investors can, however, roll over a 529 plan to a family member of the beneficiary without that restriction. The tax consequences of a rollover will vary depending on state law and may include recapture of tax deductions received from the original state as well as penalties. Consult with your tax, legal, or financial advisor in regards to your situation.

4. Note the Sales Charges

Bright Directions offers A shares at Net Asset Value (NAV). If your client paid a previous front-end sales charge with their out-of-state 529 plan, they will not pay a front-end sales charge when rolling over to Bright Directions. The rollover would be made at NAV.

New (non-rollover) contributions would be subject to any applicable front-end sales charges. This initial sales charge waiver is only available through certain broker-dealers (check with your home office).

5. Ask the Right Questions

No one knows your clients like you do, so be sure to ask yourself important questions, such as:

- **Is the low cost of the Bright Directions portfolios advantageous in comparison to the out-of-state advisor-sold 529 plan your client is invested in?**
  (e.g., many advisor-sold 529 plans have a higher upfront sales charge on A shares and a higher C share ongoing services fee)
- **Do your clients have any contingent or deferred sales charges with their out-of-state 529 plan?**
- **If your clients are not Illinois residents, do they gain tax advantages by staying with their current 529 plan?**

Ready to Roll?

Make sure you've got the right paperwork for your clients.

If they already have a Bright Directions account:

1. Rollover form
2. Copy of latest statement from current 529 plan

If they do not already have a Bright Directions account:

1. Enrollment form
2. Rollover form
3. Copy of latest statement from current 529 plan

Important Note: As you plan with clients throughout the year, make sure to act early as other 529 plans can take several weeks to complete the rollover process.

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The Bright Directions College Savings Program is sponsored by the State of Illinois and administered by the Illinois State Treasurer, as Trustee. Union Bank and Trust Company serves as Program Manager and Northern Trust Securities, Inc., acts as Distributor. Balances in your Bright Directions account are not guaranteed or insured by Bright Directions, the State of Illinois, the Illinois State Treasurer, any other state or federal agency, Union Bank and Trust Company or any of its affiliates, Northern Trust Securities, Inc. or any of its affiliates, the Federal Deposit Insurance Corporation (except as provided in the Program Disclosure Statement solely with respect to the FDIC-insured Bank Savings Underlying Investment), or any other entity.

An investor should consider the investment objectives, risks, and charges and expenses before investing. This and other important information is contained in the Bright Directions Advisor-Guided 529 College Savings Program Disclosure Statement, which can be obtained from your financial professional or at BrightDirections.com and should be read carefully before investing. You can lose money by investing in a portfolio. Each of the portfolios involves investment risks, which are described in the Program Disclosure Statement. Before you invest, consider whether your or the beneficiary's home state offers any state tax or other state benefits such as financial aid, scholarship funds, and protection from creditors that are only available for investments in that state's 529 plan.

[1]The $990 tax savings figure is based on a $20,000 contribution by Illinois taxpayers that file jointly and the current 4.95% Illinois tax rate (2021). An individual who files an individual Illinois state income tax return will be able to deduct up to $10,000 per tax year (up to $20,000 for married taxpayers filing a joint Illinois state income tax return) for their total, combined contributions to the Bright Start Direct-Sold College Savings Program, the Bright Directions Advisor-Guided 529 College Savings Program, and College Illinois during that tax year. The $10,000 (individual) and $20,000 (joint) limit on deductions will apply to total contributions made without regard to whether the contributions are made to a single account or more than one account. The amount of any deduction previously taken for Illinois income tax purposes is added back to Illinois taxable income in the event an Account Owner takes a Nonqualified Withdrawal from an Account or if such assets are rolled over to a non-Illinois 529 plan. If Illinois tax rates have increased since the original contribution, the additional tax liability may exceed the tax savings from the deduction.

[2]The Illinois Administrative Code provides that in the case of a rollover from a non-Illinois qualified tuition program, the amount of the rollover that is treated as a return of the original contribution to the prior qualified tuition program (but not the earnings portion of the rollover) is eligible for the deduction for Illinois individual income tax purposes.

[3]An individual who files an individual Illinois state income tax return will be able to deduct up to $10,000 per tax year (up to $20,000 for married taxpayers filing a joint Illinois state income tax return) for their total, combined contributions to the Bright Directions Advisor-Guided 529 College Savings Program, the Bright Start Direct-Sold College Savings Program, and College Illinois during that tax year. The $10,000 (individual) and $20,000 (joint) limit on deductions will apply to total contributions made without regard to whether the contributions are made to a single account or more than one account. The amount of any deduction previously taken for Illinois income tax purposes is added back to Illinois taxable income in the event an Account Owner takes a Nonqualified Withdrawal from an Account or if such assets are rolled over to a non-Illinois 529 plan. If Illinois tax rates have increased since the original contribution, the additional tax liability may exceed the tax savings from the deduction.

*The Bright Directions Advisor Guided 529 College Savings Program was rated Bronze by Morningstar (November 2022). The Morningstar Analyst Rating™ is not a credit or risk rating. It is a subjective evaluation performed by Morningstar's manager research group, which consists of various Morningstar, Inc. subsidiaries ("Manager Research Group"). In the United States, that subsidiary of Morningstar Research Services LLC, which is registered with and governed by the U.S. Securities and Exchange Commission. The Manager Research Group evaluates each plan's investment options within the context of their objectives and peer groups, with emphasis placed on the options with the most assets. Plans are evaluated based on four key pillars, including process, people, parent, and price. The Manager Research Group uses this four pillar evaluation to determine which plans they believe are likely to adhere to industry best practices and feature investment options that are likely to collectively outperform relevant peers on a risk-adjusted basis over the long term. They consider quantitative and qualitative factors in their research, and the weight of each pillar is as follows: 30% for Process, People, and Parent, and 10% for Price. The Morningstar Analyst Rating scale is Gold, Silver, Bronze, Neutral, and Negative. Plans that receive Morningstar Analyst Ratings of Gold, Silver, or Bronze for the most part follow industry best practices, offering some combination of the following attractive features: a strong set of underlying investments, a solid manager selection process, a well-researched asset-allocation approach, an appropriate set of investment options to meet investor needs, low fees, and strong oversight from the state and program manager. State income tax benefits vary widely from state to state, and some states have no state tax benefit for investing in a 529 plan. Given the variability of state tax benefits for investors based on personal considerations such as residency, income level, size and frequency of contributions, and other factors, Morningstar does not treat tax benefits as a predictor of performance, and therefore it is not included in the ratings assessment. Morningstar Analyst Ratings are continuously monitored and reevaluated annually. For more detailed information about Morningstar's Analyst Rating for 529 College-Savings Plans, including the methodology, please go to https://www.morningstar.com/content/dam/marketing/shared/pdfs/Research/Morningstar_Analyst_Rating_Methodology_071020.pdf.

The Morningstar Analyst Rating (i) should not be used as the sole basis in evaluating a plan, (ii) involve unknown risks and uncertainties which may cause analyst expectations not to occur or to differ significantly from what they expected, and (iii) should not be considered an offer or solicitation to buy or sell a 529 college-savings plan or its underlying investment options.

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(*Except for the Bank Savings Underlying Investment)