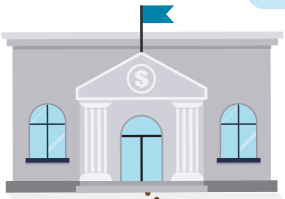
COLLEGE SAVINGS ACCOUNTS

Research has shown that children with a savings account in their name dedicated for college are 7x more likely to attend college than children without savings.

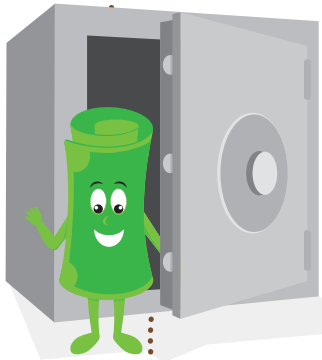
1 Kids enroll.

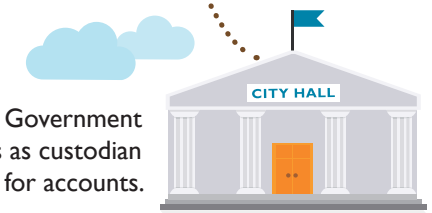
Elementary school automatically enrolls all kindergartners in savings program.

2 Accounts are set up.



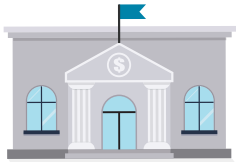
Financial institution holds accounts.



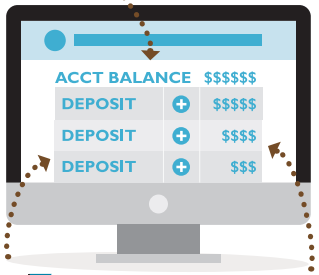


Government acts as custodian for accounts.

3 Accounts grow. Financial education provided.



Family makes deposits into account.

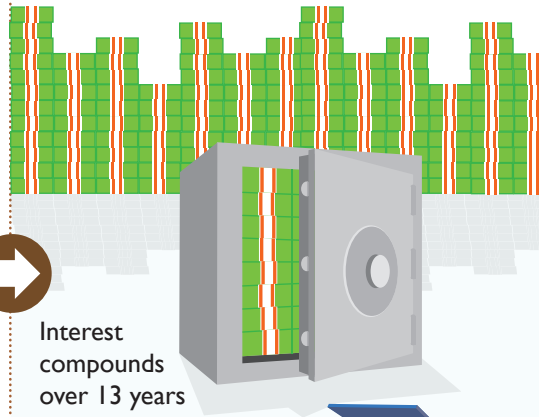


Government provides initial seed deposit.

Private philanthropy matches families' deposits and/or rewards achievements of milestones.

K-12 school integrates age-appropriate financial education into curriculum. Financial education offered to parents.

4 Student uses funds for higher education expenses.



Interest compounds over 13 years

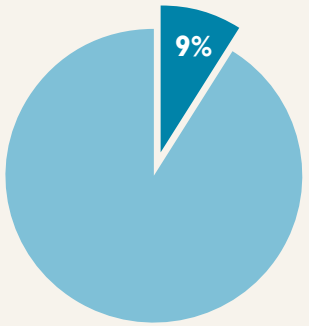
Minnesota Asset Building Coalition | For more information, contact **Dave Snyder** at **dsnyder@mnlsap.org**

COLLEGE SAVINGS PLANS IN MINNESOTA

The most common type of college savings plan is a 529 savings plan. 529 accountholders do not have to pay taxes on the interest earned on the account if that money is used for higher education expenses in the future. Nearly every state has a 529 plan. Unfortunately, 529s are under-utilized by low-income individuals. According to a 2009 study by the Financial Research Corporation, only nine percent of 529 accountholders reported having income under $50,000.

In Minnesota, the 529 plan is called the Minnesota College Savings Plan (www.mnsaves.org).

Underutilization of 529 Plans by Low-Income Individuals



Under $50,000

$50,000 and above

Source: Bridget Bearden, Evaluating College Savings Market Opportunities (Financial Research Corporation, 2009).

FAQs ABOUT THE MINNESOTA COLLEGE SAVINGS PLAN*

How can I enroll in the Minnesota College Savings Plan?

- ***By phone:*** Call 1-877-EDU 4 MIN (877.338.4646).
- ***Online:*** https://www.mnsaves.org/open
- ***By mail:*** Write to P.O. Box 55134, Boston, MA 02205-5134.

What if I need the funds in the account for other purposes?

If you withdraw funds for purposes other than higher education expenses, those funds may be subject to federal and state income taxes and an additional 10% federal tax.

What if my child decides not to attend college? If your child does not attend college, you as the account owner may name another beneficiary for the account. The new beneficiary must be an eligible member of the family of the original beneficiary. Otherwise, in most cases, if the funds are withdrawn for a purpose other than to pay for qualified higher education expenses, it will be treated as a non-qualified withdrawal and earnings may be subject to federal and state income tax as well as an additional 10% federal tax.

Incentives to Encourage Residents to Save in the Minnesota College Savings Plan

1. ***Minnesota could match individual contributions made to 529 accounts.*** Minnesota used to have a matching grant incentive. Before 2011, a 15% or 10% matching grant of up to $400 per year was available to Minnesota residents depending on their income. Unfortunately, Minnesota eliminated its matching grant incentive as part of a budget compromise in July 2011.
2. ***Minnesota could seed 529 accounts with an initial deposit.*** For example, the state of Maine makes a one-time $500 grant available to all Maine babies to start a 529 account, regardless of the family's income.
3. ***Minnesota could eliminate minimum deposit requirements.*** Currently, the Minnesota College Savings Plan requires either a $25 or $15 contribution, depending on how the deposit is made.

* Answers to these questions are taken from the Minnesota College Savings Plan website: www.mnsaves.org.