

# Virginia529 prePAID Benefits Guide



Whether you are just starting the journey into higher education or are continuing, this Virginia529 prePAID Benefits Guide answers questions on how to access your account, how benefits are calculated and how and when distributions are processed. The Guide also addresses federal financial aid reporting requirements of 529 accounts and some basic tax issues. You may always access information about your account(s) online at Virginia529.com. For complete information, refer to the Master Agreement which governs your prePAID account. If you still have questions, call Virginia529 at 1-888-567-0540 or contact us at customerservice@virginia529.com.

## GETTING STARTED

### 1. Update your online account profile

- Select “My Account” at Virginia529.com and log into your account

### 2. Complete the prePAID Intent to Enroll (Intent)

- Access the Intent **online at Virginia529.com**, from your secure account login
  - Complete only one Intent per account owner/beneficiary combination. If you have multiple accounts, refer to “**Multiple prePAID Accounts**” below
  - The Intent authorizes VA529 to communicate with the school and make payments to Virginia schools
  - **Student Identification Number** – a required field. This unique number is assigned by the school and usually located in the acceptance letter
- Submit the Intent no later than **May 19 – failure to complete the Intent with all required information will delay processing and payment of benefits!**
  - If your beneficiary has been placed on a waitlist, complete the Intent to Enroll as soon as a decision is made.
- You also may **mail** the Intent to VA529 at **9001 Arboretum Parkway, N. Chesterfield, Virginia 23236** or fax it toll-free to **1-866-757-1295**
- To ensure proper crediting and payments, submit a new Intent if **ANY** information changes – particularly if the beneficiary **TRANSFERS** or **ELECTS** to sit out a semester/year!
- **NO** benefits will be paid until the Intent is received, in proper form, by VA529

### 3. Multiple prePAID accounts

- With multiple prePAID accounts for the same beneficiary, accounts will be depleted in the order purchased unless you request otherwise
- For a combination of Tier I and Tier II accounts, the Tier II semesters will be depleted first, unless you request otherwise

### 4. Deposits

- Refundable or non-refundable deposits due upon acceptance are **not** covered by prePAID.

**Note:** In 2012, Virginia529 prePAID (prePAID<sup>SM</sup>) (formerly Virginia Prepaid Education Program or VPEP) began offering semesters not years. All prePAID accounts were adjusted to reflect the change. For each year of benefits purchased under the University or Community College plans, an Account Owner now has two (2) semesters in the corresponding Tier I or Tier II plan.

**If the beneficiary is not attending school yet, you do not need to take any action now.** Consult the Master Agreement for options, including maintaining the account for the named beneficiary for future use or changing beneficiary to a qualified member of the family.

## CALCULATION OF PREPAID BENEFITS

prePAID is a defined benefit program and benefits vary depending on the account you hold and the school the beneficiary attends. Benefits are determined and distributed on a semester basis. Update VA529 on any changes in the student's status. Below is basic information on the different benefits available. Consult the terms of your Master Agreement for more detailed information about your prePAID account and benefits payable.

### 1. Beneficiary attends a Virginia public two- or four-year school

- prePAID benefits: *undergraduate in-state semester or term charges for tuition and mandatory fees required and imposed as a condition of enrollment of all students by a two-year or four-year Virginia public college or university for the normal full-time course load for students enrolled in a general course of study*
  - Additional charges for a specific major, class, program or course of study, regardless of what the school calls the charges, are **NOT** covered by prePAID
    - **Differential tuition** is a term some schools use to assess additional charges for a particular course, major or program of study. School invoices may show the differential as part of overall tuition, but it is **NOT** covered by prePAID
  - Credits above the normal full-time course load are **NOT** covered by prePAID
    - Four-year schools: full-time = 12-18 hours
    - Community colleges: full-time = 16 hours per semester of Tier II benefits
  - The student is responsible for any charges not covered by prePAID including, but not limited to, (i) room and board, (ii) participation in a particular sport/activity, (iii) lab or other course charges, (iv) textbooks, (v) supplies, (vi) computers, or (vii) matriculation, graduation, and new student fees
  - prePAID benefits used for less than a full-time course load (including summer school) are prorated. If you are considering using your prePAID benefits for summer school or a mini-session, call VA529 at 1-888-567-0540 to discuss how this may affect your future prePAID benefits
- If the beneficiary is **NOT** a Virginia resident at the time prePAID benefits are paid, the difference between in-state and out-of-state tuition and mandatory fees are the responsibility of the student
- In some instances, the refund value of your prePAID account will exceed the payment otherwise due – if so, VA529 will notify you of the option to select an **alternate payment** (see page 3)

### 2. Beneficiary attends a Virginia independent school (private)

- prePAID covers the **lesser** of 1) contract payments made plus the actual return on the invested funds, compounded annually, **or** 2) the highest in-state undergraduate tuition and mandatory fees at a Virginia public institution in the semester benefits are used
  - The actual return for any period may be negative
  - Virginia independent, or private, schools include both non-profit and accredited proprietary schools eligible to participate in the federal financial aid program
- In some instances, the refund value of your prePAID account will exceed the payment calculation above – if so, VA529 will notify you of the option to select an **alternate payment** (see page 3)

### 3. Beneficiary attends school (public or private) outside Virginia

- prePAID covers the **lesser** of 1) contract payments made plus interest at the composite **reasonable return**, compounded annually, **or** 2) the average in-state undergraduate tuition and mandatory fees at Virginia public institutions in the semester benefits are used
- In some instances, the refund value of your prePAID account will exceed the payment calculation above – if so, VA529 will notify you of the option to select an **alternate payment** (see page 3)

#### 4. Conversion of Tier I and Tier II benefits

- Tier I (former University) and Tier II (former Community College) benefits may be applied to either four-year or two-year Virginia schools at the conversion rates applicable for your contract purchase year, as described in the Virginia529 prePAID Program Description
- Tier I semester contracts cover one semester of Tuition (as defined in the Master Agreement) at a Virginia public-four year school; the same contract applied to a Virginia public two-year or community college will cover **more** than a semester of Tuition. Conversely, a Tier II semester contract will cover one semester of Tuition at a Virginia public two-year or community college; when applied at a Virginia four-year college, the contract will cover **less** than a semester of Tuition. See the prePAID Conversion Table below for the conversion factor relating to your contract based on the enrollment period/year in which it was purchased.

### prePAID Conversion Table

Contract Purchase Date	Tier I Contract Coverage*		Tier II Contract Coverage*	
	VA public 4-year university	VA public 2-year college	VA public 4-year university	VA public 2-year college
Prior to December 2012	1	3.3333	0.3000	1
Dec. 1, 2012 through Nov. 30, 2013	1	2.6638	0.3754	1
Dec. 1, 2013 through Nov. 30, 2014	1	2.6466	0.3779	1
Dec. 1, 2014 through Nov. 30, 2015	1	2.6130	0.3827	1

\*in semesters

#### 5. Reasonable Return

- VA529 calculates a **reasonable return** on prePAID accounts to determine benefits (i) when a student attends school outside Virginia or (ii) upon cancellation (partial or complete) of an account
- **Reasonable return** currently tracks quarterly performance of the Institutional Money Funds Index (reported in the Money Fund Monitor™ by iMoneyNet). The measure of the reasonable return is subject to change without notice. See Virginia529.com for the complete reasonable return history

#### 6. Timing of Calculation of Benefits

- VA529 calculates prePAID benefits prior to the beginning of each academic year
- Each academic year applicable, VA529 will contact you about how to take advantage of the **alternate payment** (see below)
- VA529 estimates your benefits until the following three factors are determined:
  - All Virginia public schools have established tuition and mandatory fees for the upcoming academic year
  - Intent to Enroll is submitted, identifying school selection
  - Final interest calculations are complete – as of June 30

#### 7. Alternate Payment

- Whether attending a Virginia public or private school or school outside Virginia, the refund value of a prePAID account may exceed the payment otherwise due to the school – this is the **alternate payment**

- To request the alternate payment (i.e., the refund value) rather than the statutory defined benefit otherwise applicable for any semester, you must in effect, partially cancel your prePAID contract
- Each semester, once the alternate payment is requested, VA529 will create an inVEST Piedmont account (if you don't already have one) and transfer the alternate payment amount to that account
- Once benefits are transferred to inVEST the transaction may not be reversed and you now control the timing and amount of distributions by submitting **Distribution Requests**
- The alternate payment generally applies if you purchased a prePAID contract for an older beneficiary and/or the beneficiary attends a lower cost Virginia public school or a Virginia private school
- The decision **not** to claim the alternate payment **does not** increase your benefits for future years

## HOW AND WHEN FUNDS ARE DISBURSED

### 1. Virginia public or private schools

- Payments are made by VA529 directly to Virginia public or private schools each semester
  - Payments are made after the school's **add-drop period**
- **AND**
- Upon receipt of an invoice from the school
- **Do not** pay the school for tuition and mandatory fees covered by your prePAID account
- **BUT**
- The student **is responsible** for charges not covered by prePAID benefits (see above)
- Some Virginia community colleges require students using prePAID benefits to notify the college's Student Accounting Office at registration. Check with your community college about their policy. **Failure to do so may result in dropped classes!**
- **NO payment arrangements will be made until VA529 receives your Intent AND your account is paid in full**
  - VA529 is not responsible for late fees charged for failure to comply

### 2. Schools outside Virginia [NEW IN 2015]

- VA529 will NOT communicate with the out-of-state school and YOU will control the timing and amount of disbursements
- VA529 will automatically create a Virginia529 inVEST account and transfer prePAID benefits to that account each semester until prePAID benefits are depleted or the student transfers
  - The Piedmont Portfolio (100% stable value allocation) is the default portfolio
  - If you have an existing Piedmont account, VA529 will use that account for transfers
  - The Piedmont option may be changed via Investment Direction
- Transfers will occur each July and November as long as you have benefits payable
- Notify VA529 **IMMEDIATELY** if the beneficiary transfers or stops attending school
- After the inVEST account is funded, **you** control the timing of disbursements from the account
  - Submit a **Distribution Request** at any time payable to the school **OR** to the beneficiary **OR** you to cover any qualified higher education expenses
  - VA529 requires a separate Distribution Request for each distribution
  - The new procedure eliminates issues VA529 encounters with schools outside Virginia
  - Your ability to pay before add/drop prevents dropped classes and blocked registrations
- Review the [Virginia529 Distribution Guide](#) for more information on using your inVEST or CollegeWealth account

### 3. Transfers to different schools

- VA529 makes prePAID distributions on a semester-by-semester basis to the school indicated in your Intent

to Enroll

- Notify VA529 with a new Intent to Enroll as soon as you decide to STOP attending a school or TRANSFER schools – failure to do so may result in payment to the wrong school

## QUALIFIED HIGHER EDUCATION EXPENSES

- Federal law (§ 529 of the Internal Revenue Code) requires that 529 distributions be for **qualified higher education expenses (QHEE)** to be tax free
- QHEE are expenses (i) incurred by or on behalf of the *designated beneficiary* of the account being used (ii) to attend an *eligible educational institution* (EEI, defined below)
- QHEE include the following:
  - Tuition and fees at an EEI
  - Textbooks, supplies, and equipment required for enrollment/attendance at an EEI
  - Room and board for any academic period if the student is enrolled at least **half time** in a degree, certificate, or other program leading to a recognized educational credential at an EEI
- Special needs services incurred in connection with enrollment or attendance at an EEI
- Repayment of student loans does **not** meet the federal definition of a QHEE

**Note:** Not all expenses listed above are covered by your prePAID account. Refer to “Calculation of prePAID Benefits” (pages 2-4) as it relates to your beneficiary.

## ELIGIBLE EDUCATIONAL INSTITUTIONS (EEI)

- Accredited post-secondary educational institutions offering credit toward an associate’s, bachelor’s, graduate-level or professional degree, or another recognized post-secondary credential may be an EEI
  - Post-secondary = after high school
- An EEI must be eligible to participate in federal student financial aid programs under Title IV of the Higher Education Act of 1965 and such schools will have a **Federal School Code**
  - Eligible schools are on the U.S. Department of Education’s website, [faisa.ed.gov](http://faisa.ed.gov), under **School Code Search** – this includes private career or proprietary schools and foreign schools **OR** call the U.S. Department of Education at 1-800-4-FED-AID (1-800-433-3243)
  - Many certificate and technical programs are EEI, providing a wide range of options for students using a VA529 account
    - Institutions which do not participate in federal student financial aid programs or are **not** accredited are not EEI

## FINANCIAL AID

### 1. Will my prePAID account impact my application for need-based financial aid?

- The value of VA529 accounts is included as an account owner asset in calculating federal financial aid
  - If the student is a dependent, the VA529 account is considered a parental asset (whether the account owner is the parent or the student)
  - If the student is independent, the account is considered a student asset
  - Inclusion of accounts owned by someone other than the student or custodial parent depends on the school
  - 529 accounts should not affect receipt of merit-based financial aid (academic or athletic scholarships, for example) and do not affect eligibility for a Virginia Tuition Assistance Grant for Virginia residents
- **Federal student loan proceeds/scholarships:** Because prePAID does not disburse funds to Virginia schools

until after add/drop, contact your school's **financial aid office** to coordinate disbursement of any federal loan money or scholarships

- The best resource for detailed financial aid information is your school's financial aid office

## 2. What prePAID account value is reported on the Free Application for Federal Student Aid (FAFSA)?

- For prePAID contracts, report the "refund" or "cancellation" value of **ALL** benefits
  - **PAYMENTS MADE - BENEFITS PAID + REASONABLE RETURN INTEREST**
- For inVEST or CollegeWealth accounts, the account value is the current balance or market value. Account values will vary depending on interest rates, market conditions and the passage of time. FAFSA requires the value as of the date you submit the form
- All 529 accounts owned (or deemed owned) by the parents must be reported
- Access current account values for all inVEST, CollegeWealth®, and/or prePAID accounts online at Virginia529.com. Select "My Account" from the home screen and log in for access
  - Select "View Accounts", then "Contract Summary"
  - Use "Select a Beneficiary" tab and select "All Beneficiaries" – this will provide a list of all accounts and beneficiaries and a total value of all accounts
  - If you have trouble accessing your account, call VA529 toll free at 1-888-567-0540 for assistance

## 3. What about scholarships?

- Scholarships may include (i) grants awarded to students for academic, athletic, musical or other special abilities, (ii) certain tuition remission benefits for children of university employees, and (iii) appointments to a United States military academy
- Scholarships do **not** include need-based financial aid, including student loans or work-study programs
- Scholarships often cover the same expenses covered by prePAID benefits. Work with your financial aid office to coordinate scholarship and prePAID benefits.
- prePAID account and benefits may be saved for later undergraduate or graduate semesters
- You may request a scholarship refund, penalty free, up to the amount of the scholarship
  - Retain documentation of the scholarship for your tax records
  - Any gain is reported on a 1099-Q in the distribution year and taxed as ordinary income **unless** you have other QHEE to support the distribution
  - NCAA scholarship rules may impact 529 distributions - contact your school to discuss any interplay between your accounts and any NCAA scholarship
- See "**tax-free educational assistance**" below for more information on scholarships

## TAX INFORMATION

### 1. Keep good records!

- Documentation of QHEE (copies of invoices, meal plan contracts, or textbook receipts, for example) are required for tax purposes to support the tax-free treatment of VA529 distributions
- NO documentation is submitted with a Distribution Request – that is retained in your records

### 2. Tax Treatment of Distributions

- Qualified Distributions – generally, distributions for QHEE are federal tax and penalty free
  - Virginia taxpayers: VA529 distributions for QHEE are also state tax free
  - Non-Virginia taxpayers: contact your state's department of taxation for information on the tax treatment of distributions from another state's § 529 program
- QHEE is reduced by **tax-free educational assistance** (including tax-free scholarships and fellowships, certain Veteran's educational assistance, Pell grants, employer-provided educational assistance, and other tax-free

payments except gifts or inheritances) to calculate “adjusted QHEE”

- Tax-free scholarships include payments for tuition, fees, books, supplies or equipment
- Non-qualified distributions (distributions not used for QHEE) are taxable as ordinary income and, unless an exception applies, subject to a federal penalty of 10 percent of the earnings
- Non-qualified distributions may result in the recapture of prior Virginia income tax deductions
  - Exceptions to the non-qualified distribution rules: distributions in the event of the beneficiary’s death, disability or receipt of a scholarship are **NOT** subject to the earnings penalty or recapture
- VA529 issues an IRS Form 1099-Q (Qualified Tuition Program Payments) each year in which a distribution is made
  - For distributions to the beneficiary or a school, the 1099-Q is sent to the beneficiary
  - For distributions to the account owner, the 1099-Q is sent to the account owner
  - Earnings are reported by the 1099-Q recipient if a distribution is **NOT** supported by QHEE
- The same higher education expense may not qualify for more than one tax benefit (e.g. tax free distributions AND a federal tax credit)
- For more information on the tax treatment of distributions see IRS Publication 970, “Tax Benefits for Education,” available at [irs.gov](http://irs.gov) **OR** call the IRS toll free at 1-800-829-3676 **OR** consult your tax advisor

**IMPORTANT NOTICE: Individual tax situations vary greatly. Please consult a tax adviser concerning any legal or tax implications arising from opening or using your VA529 account. VA529 cannot provide legal, financial or tax advice and the information in this Distribution 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 distributions from a VA529 account.**



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