

Informer

CollegeCounts Recognized by Morningstar¹

MORNINGSTAR HAD THIS TO SAY ABOUT THE PLAN IN OCTOBER 2016:

"Alabama's CollegeCounts 529 Fund Advisor Plan hits the mark for residents and nonresident do-it-yourselfers, and following prudent changes in September 2016, investors in this advisor-sold plan's three age-based tracks travel smoother paths. The program manager's research backing this sensible modification reflects positively on this plan's oversight."

"The plan offers an exceptional selection of individual options for investors to create customized portfolios. The lineup includes a mix of 25 passive and active strategies managed by well-regarded investment firms. Investors have access to firms such as BlackRock, DFA, PIMCO, and T. Rowe Price, among others."

"Investors can be confident in the plan's oversight. Program manager Union Bank & Trust enlists Wilshire Associates to design and select investments for the plan. Alabama also employs a consultant. Furthermore, Alabama discloses board meeting materials on its treasury department's website, providing ample transparency to investors."

"The plan's strong lineup, coupled with Alabama's state tax deduction on contributions (\$5,000 individual/\$10,000 joint), make it an attractive option for residents. Nonresidents may also find the plan compelling."

¹October 25, 2016 – Morningstar, a leading provider of independent investment research, announced new Analyst Ratings and reports for 63 of the nation's largest 529 college savings plans. Alabama's CollegeCounts 529 Fund was awarded a Bronze Medal. In 2016, Morningstar identified 33 plans that it believes to be best-in-class options, assigning these programs Analyst Ratings of Gold, Silver, and Bronze. These plans, 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. These features improve the odds that the plan will continue to represent a strong option for investors. Gold-rated plans have all or a vast majority of these attributes. Silver- and Bronze-rated plans embody most of these qualities but often have some room for improvement.

Since 2012, ratings for 529 plans use the same scale as the Morningstar Analyst Rating for mutual funds. Both Analyst Rating methodologies consider the same five factors to arrive at the final rating, though the 529 ratings reflect the quality of the entire plan—not a single investment, as is the case for the fund rating. To arrive at an Analyst Rating for 529 plans, analysts consider:

Process: Did the plan hire an experienced asset allocator to design a thoughtful, well-diversified glide path for the age-based portfolios? What suite of investment options is offered?

People: What is Morningstar's assessment of the underlying money managers' talent, tenure, and resources?

Parent: Is the program manager a good caretaker of college savers' capital? Is the state managing the plan professionally?

Performance: Have the plan's options earned their keep with solid, risk-adjusted returns over relevant time periods? How is the plan expected to perform going forward?

Price: Are the investment options a good value?

CollegeCounts Morningstar Pillar Ratings

Process: Positive **People:** Positive **Parent:** Positive
Performance: Neutral **Price:** Neutral

Morningstar rates the five Pillars: Positive, Neutral, or Negative. While these ratings can help with the selection process, they should not be the only factor considered. A Morningstar Analyst Rating for a 529 College Savings Plan is not a credit or risk rating. Analyst Ratings are subjective in nature and should not be used as a sole basis for investment decisions. Morningstar does not represent its Analyst Ratings to be guarantees. Please visit Morningstar.com for more information about the Analyst Ratings as well as other Morningstar ratings and fund rankings.

Long-Term Investing

The stock and bond markets continue to have volatility with ups and downs. The following table provides interesting insights as you look out over time as a disciplined long-term investor. 2008–2009 was a very difficult period for the economy and markets. Investors who stayed the course and continued to invest have seen their 401(k), college savings plans, and investments rebound. Match your risk tolerance with your investing style, and always utilize the expertise of your investment professional as you review your overall financial plan.

DOW JONES INDUSTRIAL AVERAGE MILESTONES

Nov. 1972	1,000
Jan. 1987	2,000
Nov. 1995	5,000
Mar. 1999	10,000
July 2007	14,000
Mar. 2009	6,507
May 2013	15,000
Dec. 2014	18,000
Nov. 2016	19,000

Source: FedPrimeRate.com

Tax Corner

ALABAMA TAX DEDUCTION

Each year, Alabama taxpayers can deduct contributions made to CollegeCounts up to:²

- ▶ \$5,000 single filers.
- ▶ \$10,000 married, filing jointly when both spouses contribute.

Review Alabama Form 40 for reporting information.

TAX-FREE WITHDRAWALS FOR QUALIFIED EXPENSES³

IRS Form 1099-Q will be mailed late-January 2017. The 1099-Q will include the amount of any 2016 distributions. If the withdrawal was paid to the beneficiary or directly to the college, the beneficiary will receive the 1099-Q.

Qualified withdrawals are exempt from federal income tax when used for qualified higher education expenses. If you withdraw money for reasons other than qualified higher education expenses, the earnings portion may be subject to federal income tax and a 10% federal penalty tax as well as state and local income taxes. In the event of a Nonqualified Withdrawal from the Plan, for Alabama state income tax purposes, an amount must be added back to the income of the contributing taxpayer in an amount of the Nonqualified Withdrawal plus ten (10%) percent of such amount withdrawn. Such amount will be added back to the income of the contributing taxpayer in the tax year that the Nonqualified Withdrawal was distributed. Please consult with your tax professional.

GIFT TAX RETURN (IRS FORM 709)

Who Must File – In general, U.S. citizens and residents must file a gift tax return if 2016 gifts were given to someone (other than your spouse) totaling more than \$14,000. Regardless of any taxes ultimately being due, if you fall in this category, it's likely you'll need to file Form 709. If you made larger gifts, make sure to review any potential gift tax filing requirements with your tax professional.

AMERICAN OPPORTUNITY AND LIFETIME LEARNING CREDITS

Make sure to review these credits with your tax professional to determine the best claiming strategy when paying for college. An American opportunity or lifetime learning credit can be claimed in the same year the beneficiary takes a tax-free distribution from a 529 plan, if the same expenses aren't used for both benefits. This means that after the beneficiary reduces qualified education expenses by tax-free educational assistance, he or she must further reduce them by the expenses considered in determining the credit. More information can be found in IRS Publication 970 available at IRS.gov.

RECONTRIBUTION OF REFUNDED AMOUNTS

If a student receives a refund of qualified education expenses that were treated as paid by a 529 plan distribution, the student can recontribute these amounts into a 529 plan for which they are the beneficiary within 60 days after the date of the refund to avoid the need to figure the taxable part of the 529 plan distribution. Check with your tax professional for additional details.

INVEST YOUR TAX REFUND

Consider investing a portion or all your Alabama state or federal tax refund into CollegeCounts. Call us or visit the CollegeCounts "Tax Center" online for the details.

Helpful Resources:

- ▶ IRS.gov
- ▶ ador.state.al.us
- ▶ IRS Publication 970
- ▶ Alabama Form 40 and Instructions

An investor should consider the investment objectives, risks, and charges and expenses associated with municipal fund securities before investing. This, and other important information, is contained in the fund prospectuses and the CollegeCounts 529 Fund Program Disclosure Statement (issuer's official statement), which can be obtained by calling 866.529.2228 or from the plan's website 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. An investor should consider, before investing, whether the investor's or designated beneficiary's home state offers any state tax or other benefits that are only available for investments in such state's 529 plan. Investors should consult a tax advisor.

The CollegeCounts 529 Fund is a qualified tuition program under Section 529 of the Internal Revenue Code that is offered by the State of Alabama and administered by the Board of Trustees of the ACES Trust Fund (the "Trust" and plan issuer).

²Individuals who file an Alabama state income tax return are eligible to deduct for Alabama state income tax purposes up to \$5,000 per tax year (\$10,000 for married taxpayers filing jointly if both actually contribute) for total combined contributions to the Plan and other State of Alabama 529 programs. The contributions made to such qualifying plans are deductible on the tax return of the contributing taxpayer for the tax year in which the contributions are made. In the event of a Nonqualified Withdrawal from the Plan, for Alabama state income tax purposes, an amount must be added back to the income of the contributing taxpayer in an amount of the Nonqualified Withdrawal plus ten (10%) percent of such amount withdrawn. Such amount will be added back to the income of the contributing taxpayer in the tax year that the Nonqualified Withdrawal was distributed. Please consult with your tax professional.

³Qualified higher education expenses include tuition, fees, books, supplies, and equipment required for enrollment or attendance; certain room and board expenses incurred by students who are enrolled at least half-time; the purchase of computer or peripheral equipment, computer software, or internet access and related services, if used primarily by the beneficiary during any of the years the beneficiary is enrolled at an eligible educational institution; and certain expenses for special needs services needed by a special needs beneficiary.

NOT FDIC INSURED / NO BANK GUARANTEE / MAY LOSE VALUE

