WHOLE LIFE INSURANCE

A 529 plan alternative

A 529 plan is a popular tax-advantaged savings vehicle to help fund a college education (Not familiar? See reverse side). But have you offered your clients an alternative with similar contribution, accumulation and distribution tax features? Whole life insurance is an option that may allow your client to:

- **Borrow cash values via policy loans, for college or other uses, without a taxable event.**[1] Distributions, for any purpose, are not taxed under current law provided the policy avoids Modified Endowment Contract (MEC) status and remains in force.
- **Have guarantees without market volatility.** Whole life provides guaranteed premiums, death benefit and cash value that won't decrease based on financial market performance. Any dividends paid will enhance the cash values and death benefit.
- **Offer options in case of disability.** It's crucial to make sure money will be there to pay for college in the event of a disability. An optional waiver of premium rider can guarantee the proper funding stays in place.
- **Provide a solution that may not affect financial aid considerations.** A life insurance policy's cash value is not counted as an asset for the policy owner under current FAFSA™ financial aid guidelines. Note: some colleges do view life insurance as an asset in determining financial aid.
- **Help fund an education should the unthinkable happen.** Unlike a 529 plan, life insurance provides an income tax-free death benefit to a beneficiary which could fund an education.

There may be situations where whole life insurance won't work. It's best to use whole life as a college savings option when a child is young so the policy can build enough cash value to properly cover college expenses. It may be wise to use an optional Paid-Up Additions (PUA) rider to supplement the early build-up of cash values. Without the API rider, the policy may not build enough cash value to provide for college tuition when your client needs it.

Whole life insurance can play a key role in your clients' college funding plan with tax-preferred access to cash values and additional benefits that provide added flexibility, protection and guarantees without market volatility.

Whole life vs. 529 plan

	Whole life insurance	529 plan
Potential deductible contributions	No	Via state tax in some states
Tax-free access to cash	Via policy loan as long as the policy stays in force.	If for qualified education expense
Not subject to market risk	Yes	Depending on investment chosen.
Optional disability waiver rider	Yes	No
May not affect financial aid amount	Yes	No*
Death benefit	Yes	No

* If owned by parents. 529 plans owned by grandparents/third parties generally do not affect financial aid of beneficiaries under current guidelines.

Ohio National Financial Services®

A closer look at a 529 plan

A 529 plan is a traditional savings vehicle for college planning because contributions are made on a federal after-tax basis and earnings grow tax-deferred. Withdrawals from the plan for qualified education expenses are on a federal, and often state, tax-free basis. The donor may be eligible for state income tax deductions on their contributions. 529 plan funds can be tied to market returns, providing a potential account value increase year over year. While the plan has powerful tax-based benefits, it has limitations and disadvantages to consider:

- **Distributions for uses other than qualified education expenses may result in tax ramifications for your client.** For instance, a non-qualified distribution would be subject to ordinary income tax, as well as a 10 percent penalty on the gain. Imagine if your client had to access 529 plan funds because of a lost job or family emergency. Not only did they already pay taxes on the money before it was contributed to the plan, but they also have to pay taxes on a portion of the earnings withdrawn, plus a 10 percent penalty.
- **529 plans are often invested in accounts subject to market volatility.** What if your client's child started college in 2009 after the market crashed? Would they feel comfortable in their ability to pay their child's tuition relying solely on the investments in their plan?
- **529 plans offer no options to fund the plan in the event of a disability.** If disabled for 90 days, would your client be able to cover living expenses and continue plan contributions? What if 90 days turned into two or five years? It's not a stretch. The average long-term disability is 2.8 years.[2]
- **529 Plan values may affect financial aid.** FAFSA™ considers a 529 plan as an asset of the parents, if they're the account owner, and will apply the plan value to the family contribution level toward college costs. A higher dollar amount in the plan may mean a lower amount of financial aid to be obtained.

Start the conversation with the flier approved for client use:
"A surprising alternative to education funding" (Form 2935 2-19) available on ON-Net.
For more information, contact the FASTeam at 877.665.2468 (Option 3).

[1] If tax-free loans are taken and the policy lapses, a taxable event may occur. Loans and withdrawals from life insurance policies classified as modified endowment contracts may be subject to tax at the time the loan or withdrawal is taken and, if taken prior to age 59½, a 10% federal tax penalty may apply. Withdrawals and loans reduce the death benefit and cash surrender value. Withdrawals from 529 plans are tax-free if used for qualifying education expenses.

[2] Council for Disability Awareness, 2019, https://disabilitycanhappen.org/overview

FAFSA is a registered trademark of the U.S. Department of Education

Whole life insurance is issued by The Ohio National Life Insurance Company. Product, product features and rider availability vary by state. Dividends are not guaranteed. Issuer not licensed to conduct business in NY.

The Ohio National Life Insurance Company | Ohio National Life Assurance Corporation
One Financial Way | Cincinnati, Ohio 45242 | 513.794.6100 | ohionational.com
Post Office Box 237 | Cincinnati, Ohio 45201-0237

Ohio National Financial Services®
Life changes. We'll be there.®