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### Overview

#### What are 529 plans?

Governed by Section 529 of the Internal Revenue Code, 529 plans are tax-advantaged higher education plans sponsored by individual states to encourage individuals and families to save for future higher education expenses.

#### What is HI529?

HI529 is a 529 plan, formerly called TuitionEDGE established by the State of Hawaii. The Plan is available to all U.S. citizens or resident aliens with a valid Social Security number or taxpayer identification number. Certain other entities may be account owners, including custodial and trust accounts. State and local governments or tax-exempt organizations described in section 501(c)(3) of the Internal Revenue Code may open an account to fund a scholarship. An account owner must be 18 years old or older and have a permanent address that is not a post office box. The beneficiary may be of any age, from newborn to adult. There are no restrictions on state of residence or income.

#### Who is Ascensus Broker Dealer Services, Inc.?

Ascensus Broker Dealer Services, Inc. is the Plan Manager for HI529 and is a leading provider of administrative services for 529 plans. Ascensus Broker Dealer Services is solely focused on providing 529 plan services to state partners and families saving for college. Ascensus Broker Dealer Services, Inc. provides program management and administrative services to individual accounts for college savers across direct, advisor and prepaid savings plans.

#### What is Upromise?

Upromise\* is a free to join rewards program that can turn every day purchases -- from shopping online to dining out, from booking travel to buying groceries -- into cash back for college. A percentage of your eligible spending will be deposited into your Upromise account. You can link your



Upromise account to your eligible 529 account and have your college savings automatically transferred. Visit [Upromise.com/hawaii](http://Upromise.com/hawaii) to learn more and enroll.

### **Who is Vanguard?**

Vanguard is the investment manager for HI529 and is one of the nation's leading mutual fund managers. Vanguard is committed to providing a low-cost, wide-ranging choice of investments, including index funds, to help HI529 account owners accumulate the assets they need to send their children to college.

### **Why should I choose HI529?**

HI529 gives you the opportunity to save for future higher education expenses. Here are some of the valuable benefits of establishing an account.

### **Participation**

- You can establish and contribute to a HI529 account no matter how much you earn. The initial minimum contribution is \$15.
- Anyone - grandparents, aunts and uncles, and even friends can open an account.
- The beneficiary can be any age and may live in any state.
- HI529 is available to residents of all 50 states.

### **Tax Benefits**

- Earnings from HI529 accounts grow tax deferred from federal and state income tax.
- Withdrawals for qualified higher education expenses are tax-free.\*\*
- You may contribute up to \$14,000 per beneficiary each year (or \$28,000 for married couples filing jointly) without incurring gift-tax consequences.
- A special gift tax exclusion allows you to make a \$70,000 (\$140,000 married filing jointly) contribution in a single year and treat it as though it were made over five years for tax purposes.\*\*\*

### **Account Control**

- As the account owner, you maintain control of the assets at all times. In fact, you can even change the beneficiary.<sup>1</sup>

### **Using the Money**

- The account assets can be used at any eligible, accredited public or private college, university, or trade school in the country and some higher education institutions abroad.
- The account's beneficiary may apply withdrawals toward qualified higher education expenses including tuition, certain room and board costs, books and supplies for undergraduate and/or graduate education.

### **Is there a State tax deduction for HI529 account contributions?**

No. At this time, the State of Hawaii does not offer an income tax deduction for contributions to HI529.

**Is my Beneficiary required to attend a Hawaii college or university?**

No. The money in your account may be used at any eligible higher education institution in the United States and abroad that qualifies under federal guidelines. This includes most public and private colleges and universities, graduate and post-graduate schools, community colleges, and certain trade and vocational schools.<sup>2</sup>

\* Upromise is an optional service offered by Upromise, Inc., is separate from HI529, and is not affiliated with the State of Hawaii. Terms and conditions apply to the Upromise service. Participating companies, contribution levels, and terms and conditions are subject to change at any time without notice. Transfers from Upromise to a HI529 Plan account are subject to a \$25 minimum.

\*\* Earnings on non-qualified withdrawals are subject to federal income tax and may be subject to a 10% federal penalty tax, as well as state and local income taxes. The availability of tax or other benefits may be contingent on meeting other requirements.

\*\*\* In the event the donor does not survive the 5-year period, a pro-rated amount will revert to the donor's taxable estate.

<sup>1</sup> For beneficiary changes to occur without federal or state income taxes, the new beneficiary must be a Member of the Family of the immediately preceding beneficiary.

<sup>2</sup> Eligible institutions include all post-secondary institutions that participate in federal student financial aid programs.

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## Investments

### What are my investment choices?

The plan offers the following investment options:

- **1 Age-Based Option.\*** For those who prefer a simplified approach to investing, HI529 offers an age-based option. When you select this option, your assets will be managed according to the age of your account's beneficiary through a series of investment portfolios that change over time.
- **5 Fixed Asset Allocation Options and a Money Market Portfolio.\*\*** HI529 provides families with five Fixed Asset Allocation Options and a Money Market Portfolio that can be tailored to build a portfolio according to your specific investment goals. Your risk tolerance and time horizon will determine which investments best meet your needs.

You can select up to five investment options per account. For complete details

on the investment options offered by HI529, please see the [Plan Disclosure Statement](#).

**Are portfolio returns guaranteed?**

No. Your returns are never guaranteed and your account value will fluctuate with market performance. As with any investment in securities, you can lose money by investing in HI529. Keep in mind that the holding period for college investors is short (generally 5 to 20 years), and you should consider investing more conservatively as the time approaches for you to begin making withdrawals. **Before you select an investment option, you should carefully consider your investment time horizon and risk tolerance.**

**When can I change my investment options?**

You can change the direction of your future contributions at any time. Federal law permits you to move the assets in your HI529 account to a different mix of investment options twice per calendar year - or whenever you change the account's beneficiary.

**If I'm invested in the age-based savings option, do I need to do anything as the beneficiary grows older?**

No. The age-based option's investments will automatically change over time as your beneficiary ages, shifting automatically from more aggressive investments when the beneficiary is younger to more conservative investments as the beneficiary approaches college age.\*

**Can I see a list and description of the portfolios' underlying mutual funds?**

Yes. Refer to the [Plan Disclosure Statement](#) or go to the [Investments](#) section of our website.

**What if I'd like to allocate part of my investment to a portfolio not listed here?**

The seven investment options offered by HI529 have been selected specifically for the Plan and are the only investment options available.

**Where do I find information on investment performance?**

You can obtain performance figures for the Plan's portfolios in the [Investments](#) section of our website.

**How is investment performance determined?**

The returns displayed on the website reflect past performance, are net of all asset-based fees, and are not a guarantee of future performance. Keep in mind that you do not actually own shares in the underlying funds. Instead, you own portfolio units of HI529, which means the returns for a particular portfolio may vary from the returns of the underlying funds.

\* Portfolios with higher allocations to bonds and short-term investments tend to be less volatile than those with higher stock allocations. Less volatile portfolios generally may not decline in value as much when markets decline, but also may not appreciate in value as much when markets go up.

Investments in bonds are subject to interest rate, credit, income, and inflation risk.

*\*\* The Income and Money Market Portfolio's investments in the Vanguard Prime Money Market Fund are not insured or guaranteed by the Federal Deposit Insurance Corporation or other government agency. Although the Fund seeks to preserve the value of the investment at \$1 per share, it is possible that the Portfolios may lose money by investing in the Fund.*

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## Financial Aid

### What impact does a 529 plan have on eligibility for federal financial aid?

529 plan assets are counted at different rates for the Expected Family Contribution (EFC) in the FAFSA formula. As of July 1, 2009, federal guidelines are as follows:

- If the student is a dependent, a 529 plan account is considered as the parent's asset (if the account owner is the parent or the dependent student). As a result, it will generally be counted at a rate of only 3-6% of its value for the EFC.
- If the student is not a dependent and is the account owner, the 529 plan account is treated as the student's asset and is generally factored into the EFC at the higher rate of 20%.
- In other cases, the account does not count as an asset for federal financial aid purposes. (However, a student may have to report distributions received from the account as income for these purposes.)

Note: Financial aid programs offered by educational institutions and other non-federal sources may have their own guidelines for the treatment of 529 plan accounts. For complete information about financial aid eligibility, you should consult with a financial aid professional and/or the state or educational institution offering a particular financial aid program, since rules and regulations often change.

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## Taxes

### What are the income tax benefits?

- **Federal income tax-free.** Earnings grow tax-deferred and are free of federal income tax when used for qualified higher education expenses. Qualified withdrawals include tuition, mandatory fees, books, supplies, and equipment required for enrollment or attendance; certain room and board costs during any academic period the beneficiary is enrolled at least half-time; and certain expenses for a "special-needs" student. (The earnings portion of non-qualified withdrawals is subject to federal income tax and may be subject to a 10% federal penalty tax, as well as state and local income taxes. The availability of tax or other benefits

may be contingent on meeting other requirements.)

- **State income tax-free.** For Hawaii taxpayers, earnings are exempt from Hawaii state income tax when used for qualified higher education expenses. If you're not a Hawaii taxpayer, consider whether your home state offers a 529 plan that provides its taxpayers with tax benefits not available to you through this plan. Be sure to weigh all the pros and cons of a particular plan before you choose to invest.

### What are the gift and estate tax benefits?

- **Federal gift tax.** You can contribute up to \$70,000 in a single year (\$140,000 for a married couple filing jointly) for each beneficiary without incurring federal gift tax, provided you don't make any other gifts to that beneficiary for the next four years. (In the event that the donor does not survive the 5-year period, a pro-rated amount will revert to the donor's taxable estate.) For more information, consult your tax advisor or estate-planning attorney.
- **Federal estate tax.** If you die with money remaining in your account, it will not be included in your estate for federal estate tax purposes. However, if you choose to take advantage of the federal gift tax averaging option mentioned above and you die within five years of contributing, a prorated portion of the contribution will be subject to estate tax. For more information, consult your tax advisor or estate-planning attorney.

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