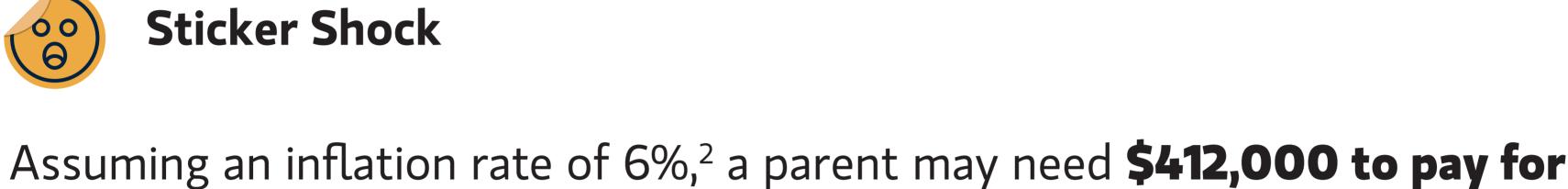


Make the Grade:

Using Equity Compensation to Save for Education



Sticker Shock

education expenses by 2031¹. Talk about sticker shock! With costs like that, it's never too early to start planning. Plan for education costs the same as you would any other

income can contribute to your plan, including your equity compensation. The first step is understanding your equity compensation holdings, including the type(s) you've been granted, vesting schedules and more. Let's run through some of your education funding options using equity compensation and some considerations to keep in mind.

financial goal and think about how all your sources of

¹ Morgan Stanley, "529 Plan: A Powerful Tool to Save for Education Expenses", August 5, 2022. 6% annual tuition inflation rate quoted by the College Board and used in their College Cost Calculator.

² Projected college costs in 2029 include 6% annual tuition inflation rate: https://

bigfuture.collegeboard.org/pay-for-college/college-costs/college-costs-calculator.

Remember, helping pay for

college isn't just about footing tuition bills. It's a way to pass on your values about the importance of education and help your loved one avoid debt that can follow them long after graduation.



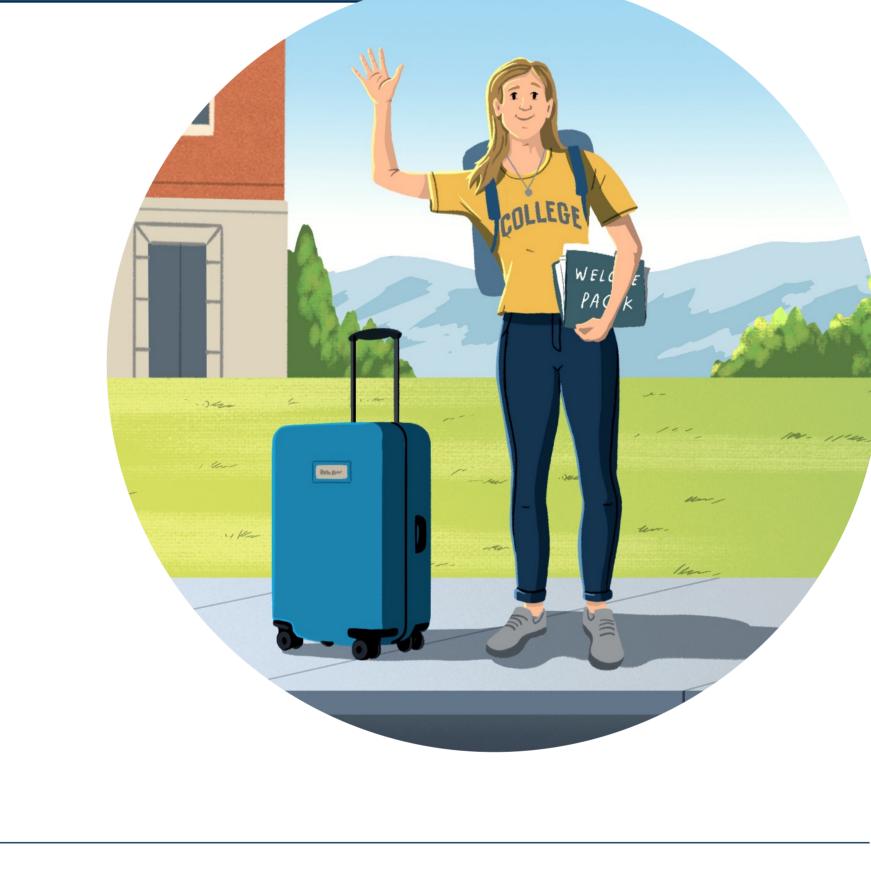


529 Plan



future education expenses, including tuition, room and board, books and supplies.

A tax-advantaged way to invest for



Can be used for qualified education

Overview

- expenses from kindergarten through graduate school. Although there is no annual limit on contributions, contributions on behalf of
- amount necessary to provide for the qualified education expenses of the beneficiary. No annual contribution limits, and lifetime contribution limits can exceed \$500,000.

any beneficiary cannot be more than the

Transferable to certain family members

- Anyone can open one, and almost anyone can be named a beneficiary.
- Generally, money grows income tax-free and can be distributed tax-free, if it's used

income tax-free.

defined by the IRS. Withdrawals not used for qualified expenses are subject to federal (and possible state and local) taxes, potentially

including an additional 10% federal tax.

for qualified education expenses, as

Learn more about 529 plans



529 plans can only be funded with cash contributions, not stock or other

assets. But you can, if desired, fund

Equity Compensation

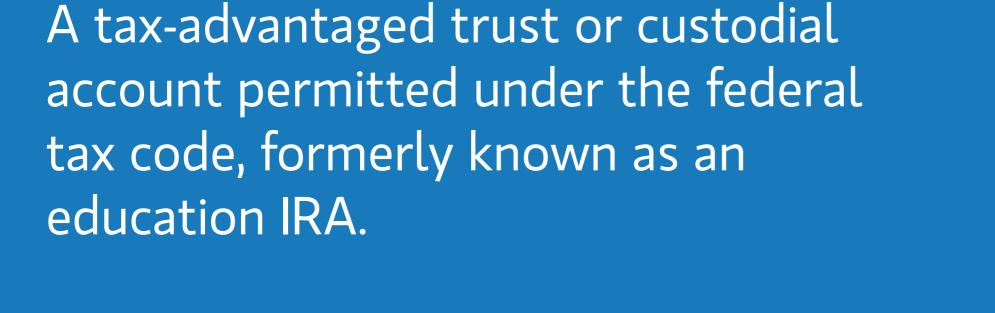
using the proceeds from the sale of any shares resulting from vesting or exercise of the underlying equity compensation. If you are coming into a large equity compensation payout in one year, you can make a "5-year election" into a **529 plan** and contribute a larger cash

lump sum in one year but treat the contribution as made across five years for gift tax purposes.

What is it?

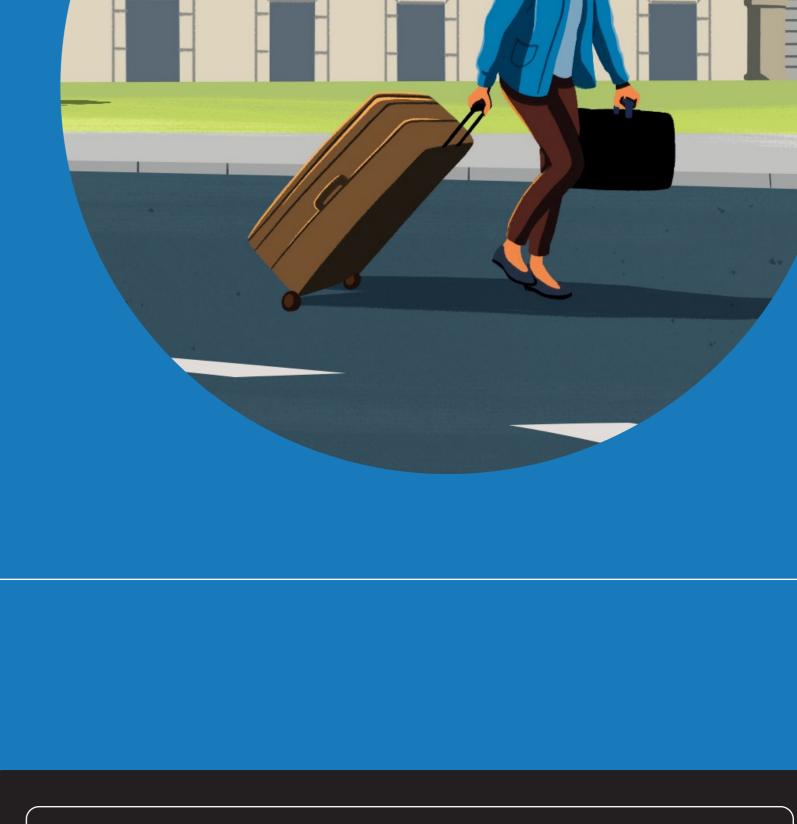
Coverdell Educational

Savings Account (CESA)



Can be used for qualified education

More than one CESA can be set up for





expenses from kindergarten through college. Earnings grow tax deferred.

Overview

Contributions up to the amount of the beneficiary's qualified expenses for the year are distributed tax-free if used for qualified education expenses.

a single beneficiary.

- Contributions are subject to an (+) annual contribution limit, the annual contribution limit is applied to the total contributions made to all CESA accounts on behalf of a beneficiary.
- **Gross Income** is under the limit set for a given tax year.

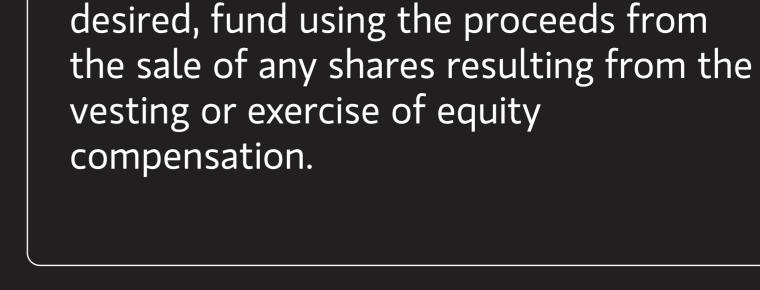
UTMA/UGMA

Accounts

What are they?

Contributions can only be made by

individuals whose **Modified Adjusted**

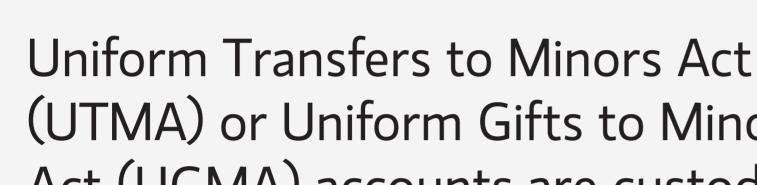


Equity Compensation

Only accepts cash contributions, not

stock or other assets. But you can, if

Considerations



(UTMA) or Uniform Gifts to Minors Act (UGMA) accounts are custodial accounts used to hold and protect

assets for minors until they reach

age of majority in their state.

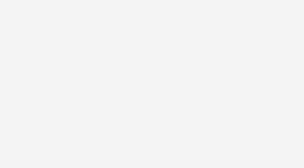
Overview

Funds can be used for any purpose, not just education expenses. Tax implications vary based on the balance of the account and the parents' income, a tax professional can outline the considerations for your situation. UGMAs terminate and the assets are turned over to the beneficiary at age 18. UTMAs typically terminate at age 21 but

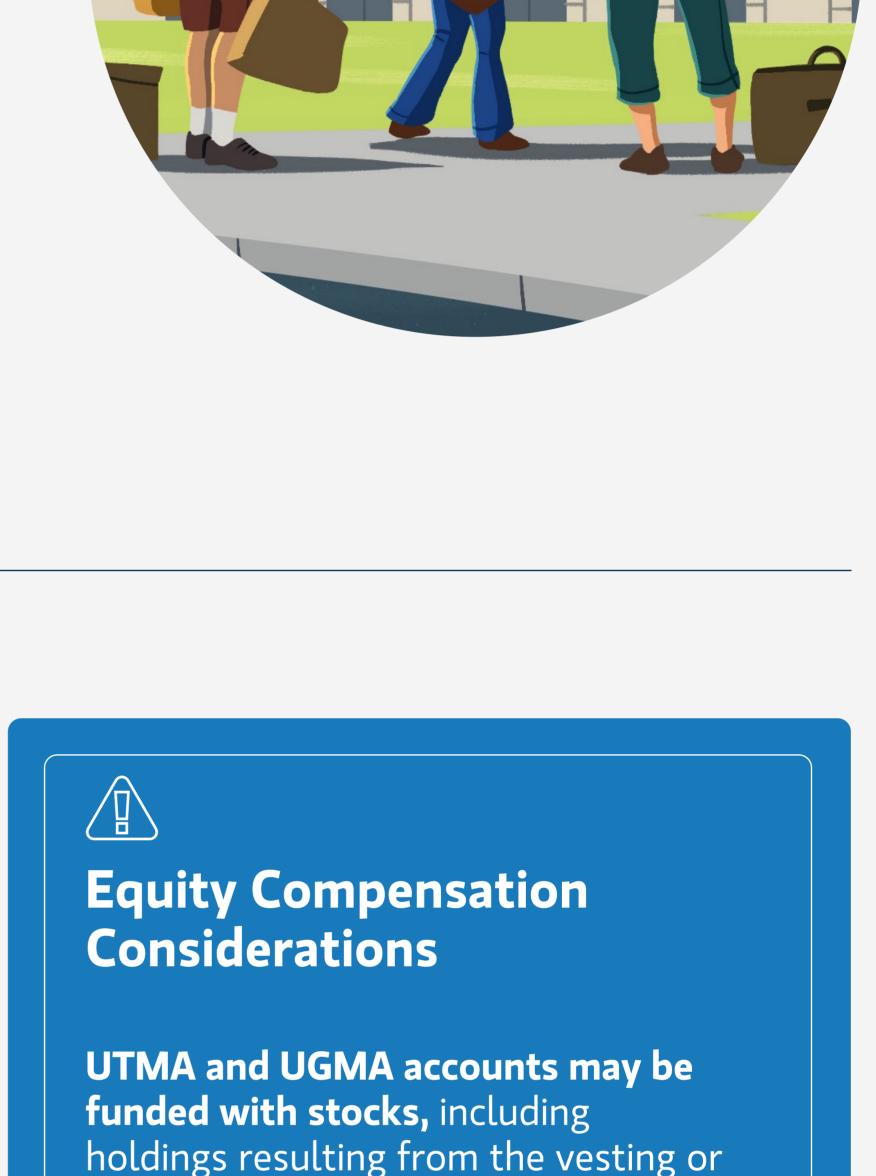
can go as late as age 25 in some cases.

You can fund a 529 plan with UTMA or

Bottom Line and Next Steps



UGMA assets and use the contributions for education expenses.



exercise of equity compensation, plus

bonds and mutual fund investments.

UTMA and UGMA accounts will not

accept unexercised stock options,

Restricted Stock Units; all equity

in fully vested company shares.

compensation contributions must be

unvested restricted stock, or

Today, there are so many ways to use your equity compensation for educational expense saving purposes: use share sale proceeds to contribute to an education savings account, hold onto the stock in an investment account to use for education expenses in the future or transfer stock resulting from the vesting or exercise of

equity compensation into a UTMA/UGMA custodial account. You don't need to choose just one option. A blended approach may be useful to take advantage of different features and potential tax benefits. No matter which path

you take, consulting with financial and tax professionals along the way can help you build an approach that's best for your needs and financial situation. Learn more about equity compensation

Disclosures Investors should consider many factors before deciding which 529 plan is appropriate. Some of these factors include: the Plan's investment options and the historical investment performance of these options, the Plan's flexibility and features, the reputation and expertise of the Plan's investment manager, Plan contribution limits and the federal and state tax benefits associated with an investment in the Plan. Some states, for example, offer favorable tax treatment and other benefits to their residents only if they invest in the state's own Qualified Tuition Program. Investors should determine their home state's tax treatment of 529 plans when considering whether to choose an in-state or out-of-state plan. Investors should consult with their tax or legal advisor before investing in any 529 Plan or contact their state tax division for more information. Morgan Stanley Smith Barney LLC does not provide tax and/or legal advice. Investors should review a Program Disclosure Statement, which contains more information on investment options, risk factors, fees and expenses and possible tax consequences.

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Sources