



## What is the Florida College Investment Plan?

The State of Florida established the Florida College Investment Plan (Investment Plan)<sup>1</sup> to promote and enhance the affordability of higher education in Florida and enable persons to contribute funds that are combined and invested to pay the future higher education expenses of a designated beneficiary. The plan is administered by the Florida Prepaid College Board (Board).<sup>2</sup>

The Investment Plan is a qualified tuition plan, which is a tax advantaged college plan authorized by s. 529 of the Internal Revenue Code. Contributions to these plans grow tax-deferred, and when the beneficiary (student) is ready for college, withdrawals utilized for the payment of qualified higher education expenses at an eligible education institution are exempt from federal income tax and State of Florida taxes.<sup>3</sup>

Through this plan, an account owner is able to save funds at his or her own pace and invest in one or more of five investment options. Each option has a different level of risk and requires an annual administration fee, but no commission or sales charges are imposed.<sup>4</sup> Unlike the Florida Prepaid College Plan, the Investment Plan is not guaranteed; thus, an account owner could lose all or a portion of the funds invested.<sup>5</sup>

As of August 20, 2010, a total of 30,974 Investment Plans have been opened.<sup>6</sup>

## What are qualified higher education expenses?

Qualified higher education expenses are defined by the Internal Revenue Code to include tuition, fees, books, supplies, equipment for the enrollment or attendance at an eligible educational institution (including certain computer technology or equipment), and room and board for students who attend school at least half-time. Qualified higher education expenses also include expenses for special needs services in connection with enrollment or attendance at an eligible educational institution.<sup>7</sup>

<sup>1</sup> Statute refers to the plan as the Florida College Savings Program; however, in practice, the plan is known as the Florida College Investment Plan. Section 1009.981, F.S.; rules 19B-16.001 through 16.012, F.A.C; Florida Prepaid College Plans, *Florida College Investment Plan*, <http://www.myfloridaprepaid.com/compare-plans/florida-college-investment-plan.aspx> (last visited Dec. 21, 2010) [hereinafter *Investment Plan Overview*].

<sup>2</sup> Section 1009.981(1)(a), F.S.

<sup>3</sup> Section 1009.981(1)(a)1., F.S.; 26 U.S.C. s. 529(b)(1); Florida Prepaid College Plans, *Comparing 529 Plans*, available at <http://www.myfloridaprepaid.com/newsroom/media-kit.aspx>; Florida Prepaid College Board, *Florida College Investment Plan Disclosure Statement*, at 1, (April 1, 2010), available at [http://www.myfloridaprepaid.com/disclosure\\_statement/](http://www.myfloridaprepaid.com/disclosure_statement/) [hereinafter *Investment Plan Disclosure Statement*].

<sup>4</sup> *Investment Plan Disclosure Statement*, *supra* note 3, at 2 and 12.

<sup>5</sup> *Investment Plan Overview*, *supra* note 1, at 1.

<sup>6</sup> Telephone interview with Florida Prepaid College Board staff, State Board of Administration (Aug. 30, 2010).

<sup>7</sup> 26 U.S.C. s. 529(e)(3) ; *Investment Plan Disclosure Statement*, *supra* note 3, at 13.

### ***What is an eligible educational institution?***

An eligible educational institution, as defined in s. 529 of the Internal Revenue Code, generally means that the institution is eligible to participate in federal financial aid programs. Such institutions include accredited postsecondary educational institutions offering credit toward a bachelor's degree, an associate's degree, a graduate level or professional degree, or another recognized postsecondary degree. Some proprietary institutions and postsecondary vocational institutions and some institutions located in foreign countries also are eligible educational institutions.<sup>8</sup>

### ***Who may purchase an Investment Plan?***

A person who has reached the age of 18 and is a U.S. citizen or resident alien with a valid social security number may purchase an Investment Plan.<sup>9</sup>

### ***Who may be the beneficiary of an Investment Plan?***

The beneficiary of an Investment Plan must be a U.S. citizen or resident alien with a valid social security number and must be designated at the time of the Investment Plan purchase. There are no age requirements for the beneficiary. The beneficiary may be a child, an adult, or the account owner, but an account may not be opened for an unborn child.<sup>10</sup>

### ***How may an Investment Plan be purchased?***

Investment Plans may be purchased year-round online at the Board website. The enrollment kit and application may also be printed from the Board website or requested by writing or calling the Board. In addition to the initial deposit into the Investment Plan, a one-time, non-refundable \$50 application fee must be paid.<sup>11</sup>

### ***What types of payment options are available?***

An account may be opened with a one-time contribution of \$250 or by starting a monthly automatic withdrawal from a bank account with a minimum contribution of \$25. Payments may be made by check, money order, cashier's checks, automatic withdrawal from a checking or savings account, or payroll deduction if offered by the employer.<sup>12</sup>

### ***What investment options are available through the Investment Plan?***

The Investment Plan offers five investment options with varying levels of risk. The options include:

---

<sup>8</sup> 20 U.S.C. s. 1088(b) and 26 U.S.C. s. 529(5); rule 19B-16.001(2)(j), F.A.C.; *Investment Plan Disclosure Statement*, *supra* note 3, at 14.

<sup>9</sup> Rule 19B-16.002(1), F.A.C.; *Investment Plan Disclosure Statement*, *supra* note 3, at 6.

<sup>10</sup> Rule 19B-16.002(1), F.A.C.; *Investment Plan Disclosure Statement*, *supra* note 3, at 3 and 6.

<sup>11</sup> *Investment Plan Disclosure Statement*, *supra* note 3, at 6 and 12; Florida Prepaid College Plans, *Resources – Materials for Opening an Account*, <http://www.myfloridaprepaid.com/resources/index.aspx> (last visited Dec. 21, 2010).

<sup>12</sup> *Investment Plan Disclosure Statement*, *supra* note 3, at 6 and 8.

- ❖ Fixed Income Investment Option (Option 1): Allocates contributions to the fixed income portfolio.
- ❖ U.S. Equity Investment Option (Option 2): Allocates contributions among four equity investment portfolios.
- ❖ Balanced Investment Option (Option 3): Allocates contributions equally between Option 1 and Option 2.
- ❖ Age Based/Years to Enrollment Investment Option (Option 4): Allocates contributions between Option 1 and Option 2 based on the age of the beneficiary or the number of years until the anticipated enrollment of the beneficiary in an eligible educational institution.
- ❖ Money Market Investment Option (Option 5): Allocates contributions to a money market fund.<sup>13</sup>

### ***Are there any tax benefits associated with the Investment Plan?***

Yes. The Investment Plan is a qualified tuition plan; therefore, when funds from the plan are used for a beneficiary's qualified higher education expenses at an eligible educational institution, earnings are exempt from federal income tax and State of Florida taxes. Federal income tax and an additional 10 percent federal tax will apply to any non-qualified withdrawal. A non-qualified withdrawal is any withdrawal other than a:

- ❖ Withdrawal used to pay the qualified higher education expenses of the beneficiary.
- ❖ Withdrawal because of the death or disability of, or scholarship award to, the beneficiary.
- ❖ Rollover distribution.<sup>14</sup>

### ***Who may direct withdrawals from an Investment Plan?***

An account owner may request a withdrawal by sending the Board a written request. For qualified withdrawals, i.e., distributions used to pay the beneficiary's qualified higher education expenses at an eligible educational institution, the distribution may be made payable to the account owner, beneficiary, or eligible education institution.<sup>15</sup>

Generally, the funds in an Investment Plan remain the property of the account owner, except for those funds distributed from the account on behalf of a designated beneficiary.<sup>16</sup>

### ***How may an Investment Plan account be terminated?***

An Investment Plan account may be terminated by either the account owner or Board.<sup>17</sup>

An account owner may voluntarily terminate an account by providing a notarized, written request to terminate the account to the Board. By terminating an account, the account owner is subject to a \$50 termination fee and the funds will be subject to taxes and penalties if the funds distributed are deemed to be a non-qualified withdrawal.<sup>18</sup>

---

<sup>13</sup> *Id.* at 2.

<sup>14</sup> *Id.* at 1 and 13; s. 1009.981(1)(a)1., F.S.; 26 U.S.C. s. 529(b)(1) .

<sup>15</sup> *Investment Plan Disclosure Statement, supra* note 3, at 13.

<sup>16</sup> Rule 19B-16.003(2), F.A.C.

<sup>17</sup> Rule 19B-16.010, F.A.C.; *Investment Plan Disclosure Statement, supra* note 3, at 15-16.

<sup>18</sup> Rule 19B-16.010(1), F.A.C.; *Investment Plan Disclosure Statement, supra* note 3, at 15-16.

An account may also be terminated by a written request for a distribution from the account that reduces the account balance to zero. The account may be reactivated at any time by depositing additional funds into the account. A termination fee is not applied to accounts terminated in this manner.<sup>19</sup>

The Board may terminate an account when:

- ❖ A material misrepresentation<sup>20</sup> is made in the application submitted to the Board or in any communication to the Board.
- ❖ An account owner has failed to provide the Board with all required information to complete an application within 120 days of the Board's receipt of the application.
- ❖ There have been no contributions or distributions from an account for a continuous period of 25 calendar years, excluding any time that the beneficiary spent as an active duty member of the U.S. armed services.
- ❖ An account has a balance less than \$250 on the first day of any calendar month that is more than 24 consecutive months after the initial deposit.<sup>21</sup>

If an account is terminated by the Board, the account owner may request a refund of the account balance. Any amount distributed will be payable solely to the account owner and will be a non-qualified withdrawal subject to federal taxes.<sup>22</sup>

### ***Is the Investment Plan financially guaranteed?***

No. Funds in an Investment Plan are subject to a variety of investment risks, including but not limited to market, interest rate, and credit risks. The principal and investment returns in an Investment Plan may fluctuate and are not guaranteed.<sup>23</sup>

### ***Does Florida offer families another way to save for college?***

Yes. The Board also offers the Stanley G. Tate Florida Prepaid College Program (Prepaid Program) to assist families in planning and saving for a college education. The Investment Plan is complementary to the Prepaid Program. Families may participate in one or both options. The Investment Plan provides families an opportunity to save for any qualified higher education expenses, while the Prepaid Program allows families to save for specific qualified higher education expenses. Both plans are managed by the Board.<sup>24</sup>

As required by the Internal Revenue Code, the Board has established a maximum contribution amount of \$382,000 for participation in both the Prepaid Program and Investment Plan.<sup>25</sup>

---

<sup>19</sup> *Id.*

<sup>20</sup> A material misrepresentation includes, but is not limited to, providing an invalid social security number or taxpayer identification number, providing false certification that a person is a family member of the beneficiary, or falsely certifying that a person is a U.S. citizen or resident alien. Rule 19B-16.010(2)(a), F.A.C.

<sup>21</sup> Rule 19B-16.010(2) and (3), F.A.C.; *Investment Plan Disclosure Statement*, *supra* note 3, at 16.

<sup>22</sup> Rule 19B-16.010(5), F.A.C.; *Investment Plan Disclosure Statement*, *supra* note 3, at 16.

<sup>23</sup> Section 1009.981(2)(c)2., F.S.; *Investment Plan Disclosure Statement*, *supra* note 3, at 33.

<sup>24</sup> Section 1009.981, F.S.; *Investment Plan Disclosure Statement*, at 1-3; *see also* Florida Prepaid College Plan Fact Sheet.

<sup>25</sup> Telephone interview with Florida Prepaid College Board staff, State Board of Administration (Aug. 30, 2010); 26 U.S.C. s. 529(b)(6); *see also* Florida Prepaid College Program Fact Sheet.

***Where may I obtain additional information?***

***Florida Prepaid College Board***

1-800-552-GRAD

<http://www.myfloridaprepaid.com>

***Florida House of Representatives***

Education Committee

(850) 488-7451

<http://www.myfloridahouse.go>