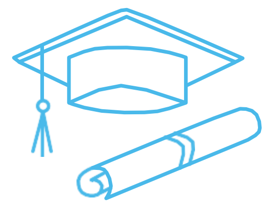
Morgan Stanley

Understanding 529 Education Savings Plans and Compensation

Exploring Cost and Tax Considerations

Summarized below is some important information that will help you understand 529 savings plans including the various cost and tax considerations of investing in a 529 plan. This summary also explains how Morgan Stanley and your Financial Advisor are compensated when you make a contribution to a 529 plan. You can also visit the websites sponsored by the U.S. Securities and Exchange Commission (www.SEC.gov) and the Financial Industry Regulatory Authority (www.FINRA.org) to obtain additional educational information about 529 savings plans.



Understanding 529 Plans

Before making a contribution to a 529 plan, we believe there are several things you should know.

What Are My Options for Funding Education Expenses?

There are many investment vehicles available to help you save for education expenses — including 529 savings plans, prepaid tuition plans, Coverdell Education Savings Accounts, UGMA/UTMA custodial accounts, U.S. savings bonds, mutual funds, stocks, bonds, and traditional savings accounts. Each vehicle has different tax implications, risk factors, investment options and cost considerations. This document addresses only 529 savings plans. Your Financial Advisor can provide you with information about the other options and can help you decide which vehicle(s) are most appropriate for you and your family.

What is a 529 Plan?

529 plans take their name from the section of the Internal Revenue Code that was enacted by Congress when the plans were created in 1996. 529 plans are officially known as Qualified Tuition Plans, a tax-advantaged investment vehicle designed to help families pay for future education expenses. There are two types of 529 plans: savings plans and prepaid tuition plans. Both are generally sponsored by states or state agencies. Forty-nine states and the District of Columbia sponsor one or more 529 plans. Morgan Stanley does not offer prepaid tuition plans. The information that follows relates to savings plans only.

Prior to the adoption of the Federal Tax Cuts and Jobs Act of 2017, 529 plans were principally designed to fund college and other higher education expenses. With the adoption of the new law, 529 plan assets are now available to fund elementary or secondary public, private or religious school expenses. However, federal tax-free qualified withdrawals from 529 plans for these expenses are capped at $10,000 per year per student. While such withdrawals will have no federal tax impact; individual state tax treatment of K-12 withdrawals varies.

Additionally, the Setting Every Community Up for Retirement Enhancement Act of 2019 expanded the benefits of 529 education savings plans by including certain student loan repayments, up to $10,000 per beneficiary, and the cost of certain apprenticeship programs as qualified higher education expenses.

We encourage account owners to consult with a qualified tax advisor about their personal situation prior to making such withdrawals as they may be subject to adverse state tax consequences.

In general, most U.S. citizens or permanent residents are eligible to set up a 529 plan for any beneficiary, including themselves. Each plan has its own eligibility requirements, so please consult your Financial Advisor or the plan offering documents for more information. The tax advantages, investment options, restrictions and fees can vary a great deal. Understanding the differences between plan types and state-specific state tax benefits is important. Morgan Stanley Financial Advisors do not provide tax or legal advice and so we encourage you to consult your individual tax or legal advisor.

How Can I Purchase a 529 Plan?

Typically, 529 plans are managed by investment management firms. They may be offered through your Financial Advisor (“advisor-sold”) or directly to investors (“direct-sold”) through a toll-free number and website. Most states offer more than one 529 plan. Some states offer both advisor-sold and direct-sold savings plans while other states only offer direct-sold savings plans. 529 plans can be effective within a comprehensive financial plan. With that potential, however, comes a significant amount of complexity that looks across an investor’s finances and investment holdings. For those investors who need help navigating the associated complexity, advisor-sold options may be an appropriate option. Others not so inclined, and more comfortable making their own investment elections or using the default options, may find the lesser fees of direct sold plans to be more attractive. The cost of investing in an advisor- sold savings plan is generally higher than a direct-sold savings plan because of the compensation component payable to the Financial Advisor for the advice they provide. Morgan Stanley does not offer every state’s 529 plan and only offers a single plan on its advisory platform. It is important for you to investigate what your home state has to offer in addition to speaking with your Financial Advisor or tax professional.

What Types of 529 Plans Are Available?

529 plans are generally managed by investment management firms, (e.g., mutual fund companies) and your contributions are generally invested in underlying investment options such as mutual funds that support the plan. Your investment will fluctuate in value, so there is no guarantee that the amount contributed to the plan will equal the amount necessary for future education expenses. Savings plans may offer greater flexibility than prepaid tuition plans because they offer multiple investment options, and you are not restricted to using the account balances for a specific educational institution (or group of institutions) or within the sponsoring state.

You may also be able to apply the proceeds from a savings plan to other expenses (e.g., room and board, textbooks, supplies and equipment) in addition to tuition and fees. Many states offer more than one savings plan, providing residents with a choice of investment management firms.

What Are the Federal Tax Considerations?

529 plans offer significant tax advantages for education saving investors. Earnings grow tax-deferred and withdrawals from a 529 savings plan are not subject to federal income tax if utilized for qualified education expenses at an eligible educational institution. The term "qualified education expenses" generally includes tuition, required fees, books, supplies, certain required equipment, and the cost of room and board (subject to certain limits). An "eligible educational institution" generally includes most community colleges, public and private four- year colleges, universities, graduate and postgraduate programs, certain vocational schools that are eligible to participate in federal student financial aid programs, and the elementary and secondary schools described above.

If you make a withdrawal for purposes other than to pay your beneficiary's qualified education expenses, then the earnings portion of the withdrawal is subject to federal and possibly state income tax and an additional 10% federal tax penalty. Distributions, whether taxable or not, are reported to the IRS the year in which they are taken. This will be reported on IRS Tax Form 1099-Q. Once positions are liquidated, cash balances are no longer part of the 529 Plan.

What State and Local Tax Benefits Apply?

You and/or your beneficiary's state of residence may affect your ability to qualify for any applicable state and local tax benefits granted to 529 plan investments. Many states provide tax incentives and other benefits for state residents who invest in a plan sponsored by their home state, which may include:

- State tax deductions for contributions
- Deferral of state income taxes on earnings maintained in the plan
- State income tax-free qualified withdrawals
- Matching grants or scholarships

Additionally, so-called "in-state plans" often waive or rebate certain fees and expenses for state residents.

The benefits of purchasing an in-state plan generally apply only if you or your beneficiary live or pay state income taxes in the 529 plan sponsor's state. If you invest in a 529 plan sponsored by a different state than where you live or pay state income taxes, typically, you will not receive the any state tax or other benefits provided to residents. In addition, your state or locality may seek to recover the value of any previously taken state or local tax benefits if you roll over or transfer account assets from an in-state plan to another state's 529 plan.

Before investing in a 529 plan, you should consider whether the state(s) where you or your beneficiary reside or pay state income taxes sponsors an in-state plan and whether the tax and other benefits afforded state residents are significant to you based on your particular circumstances. Depending on the state where you live or pay state income tax, your contribution amount and tax status, the tax savings from the state income tax credit or deduction may be up to $1,000 or more per year. In certain states, these benefits may be the most significant factor for you in choosing a plan. Your Morgan Stanley Financial Advisor can direct you to information about in-state plans and select out-of-state 529 plans and the availability of state or local income tax or other benefits offered. Other factors to consider include the variety of investment options available, including the range of investment objectives and strategies offered, risk factors related to the variety of investment options or the lack of variety, relative performance, fees, and services.

Where Is My Money Invested?

Your contribution to a 529 savings plan is invested in a portfolio(s), generally consisting of underlying mutual funds. Although very similar to mutual funds in design and structure, a 529savings plan's portfolios are issued by state governments, and in most cases, are not directly regulated under the federal securities laws applicable to mutual funds, but rather the Municipal Securities Rulemaking Board.

Most savings plans offer the following types of investment options:

- *Static Investment Portfolios* – Your contributions will be invested in a portfolio that does not change, remaining "static" over time in a specific combination of underlying mutual funds. The specific underlying mutual funds are combined to achieve a specific risk/ reward relationship. You should speak with your Financial Advisor to determine if a static portfolio is appropriate for you.
- *"Age-Based" or "Years-to-Enrollment" Investment Options* – Your contributions will be invested in a portfolio that will automatically change over time depending on the age of your beneficiary or the number of years left before your beneficiary enrolls in an educational institution (also known as the date of matriculation). The investment manager adjusts the allocation of specific underlying mutual funds and their relative weighting within the portfolio over time, generally growing more conservative over time.
- *Individual-Fund Investment Options* – Your contributions will be invested entirely in one or more portfolio(s) each consisting of a single underlying mutual fund and, like static (multi-fund) portfolios discussed above, will not change unless directed by you.

What Fees and Charges Apply with 529 Plans?

529 savings plans' fees and charges are used by the 529 plan sponsor to support the plan and compensate firms for selling interests in the plan. Some of the fees are based on the amount of assets in your plan account. Other fees are assessed on a transactional or periodic basis. Please see the applicable 529 Plan Program Disclosure for more information on fees and expenses.

Total fees, expenses and compensation vary by plan and by plan portfolio. Typical fees and expenses are described below and may include such items as underlying fund expenses, an administration fee, and annual distribution and servicing fees. For the commission-based plans available at Morgan Stanley, the overall cost associated with maintaining a 529 Plan ranges up to approximately 2.56 percent of the account value annually. In addition, initial sales charges range up to 5.75 percent. For our advisory account plan, the account advisory fee ranges up to 2% per year.

- *Program Management Fees* – The Program Manager of each 529 savings plan generally receives a program management fee. The program management fee compensates the manager for providing investment advisory, distribution, marketing, accounting, and other services to the plan. The fee is generally assessed as a percentage of portfolio assets.
- *State Administration Fees* – To help pay for the operation of the plan, some state sponsors of 529 savings plans charge a state administration fee assessed as a percentage of portfolio assets.
- *Annual Maintenance Fees/Enrollment Fees/Termination Fees* – These fees are generally imposed as a specific dollar amount and apply at specified times or upon certain events (e.g., initial purchase, termination or on the account anniversary).
- *Underlying Mutual Fund Expenses* – Each investment portfolio indirectly bears a proportional share of the fees and expenses incurred by the underlying mutual fund(s) (e.g., investment management fees and other expenses).
- *Sales Charges, Distribution and/or Service Fees* (applicable to our brokerage account commission based 529 plans) – Depending upon the Share/Unit Class selected (see discussion below), a front-end sales

charge may be assessed on your purchase. In addition, annual distribution and/or service fees typically apply. These fees, similar to the "12b-1" fees charged by some mutual funds, generally range between 0.25% and 1.25% of your investment annually. Your Financial Advisor receives a portion of these sales charges and distribution fees as ongoing compensation for selling and servicing the 529 plan.

- *Advisory Account Fees (applicable to our fee-based advisory account 529 plan)* - Unlike brokerage based 529 plans, in which you may pay brokerage charges, or ongoing commissions (trails) on your investment options, an advisory fee leveraging household pricing is charged. This advisory fee may range up to 2.00% as determined by you and your Financial Advisor. For more information surrounding advisory products, see the applicable Morgan Stanley ADV brochure at www.morganstanley.com/adv.

529 Plan Share Unit/Class Differences

The following information principally pertains to 529 plan sales transacted through commission-based brokerage accounts. For more information on fees and expenses of our fee based advisory 529 plan program, please refer to the applicable Morgan Stanley ADV Brochure. You should consider all of the available methods for purchasing and holding 529 plans discussed in this booklet and in your program documents.

Most 529 plans offer different "unit" class pricing options similar to the share class pricing arrangements offered by open-end mutual funds. For these purposes, the terms "unit class" and "share class" are interchangeable. Each unit or share class of a particular investment option within a plan has an expense and sales charge structure based on the various types of asset-based fees, other fees and expenses, and sales charges assessed.

The most common unit classes available in commission-based brokerage accounts — A and C — are described below. Class A units typically assess a front-end sales charge while Class C units utilize a level sales charge structure. Some plans also offer other share class unit structures. However, Morgan Stanley generally offers only Class A and Class C units in its commission-based brokerage accounts. If you wish to purchase other types of units, which may carry lower overall costs, you will need to do so directly with the plan or through an account at another financial intermediary.

The key distinctions among unit classes are the sales charges and ongoing fees and expenses you may pay in connection with your investment in the fund. The timing and amount of compensation received by your Financial Advisor for selling you units of the plan will also be directly affected by the unit class you purchase.

Class A Units – Class A units are subject to a sales charge or front-end load that is deducted as a percentage of the amount of your initial contribution. The net amount of the contribution (after the deduction of the initial sales charge) is invested in units of the Plan's portfolio(s). For example, if you invest $10,000 in a plan and the front-end load is 5 percent, you would be charged $500, and the remaining $9,500 would be invested in the chosen fund. Typically, Class A units have lower ongoing expenses (generally 0.25 percent or $25 per $10,000.00 of fund assets per year) than Class C units (typically 1 percent of $100 of fund assets per year).

You may be eligible for sales charge reductions or "breakpoints" based on the size of your investment in the 529 savings plan. In addition, you may qualify for "rights of accumulation." These are further discounts when the amount of your 529 plan investment is combined with other assets which you and your immediate family members already have invested in the plan and/or in certain mutual funds managed by the manager for that plan. Specific rules for achieving breakpoints vary from plan to plan. When making any new 529 plan purchase, please inform your Financial Advisor of any 529 plan purchases, holdings in the same 529 plan or holdings in mutual funds managed by the manager of the 529 plan. If you have any questions about the availability of sales charge discounts on any 529 plan purchases, please ask your Financial Advisor.

Class C Units –Class C units do not have a front-end sales charge. However, Class C units have a contingent deferred sales charge (CDSC) (generally 1%), and the period during which the Class C CDSC can be imposed is generally one year. In addition, Class C units are subject to higher ongoing asset-based fees, particularly higher distribution fees. These fees may remain in place for the life of the investment since, depending upon the terms of 529 Plan, Class C units may not ultimately convert to Class A units after a certain period of time, as determined by the 529 Plan manager.

Choosing a Unit/Share Class

Morgan Stanley employs an order entry unit/share class selection calculator designed to assist clients with selecting the least costly unit/share class available in its commission-based brokerage accounts over the anticipated holding period of the investment. Your Financial Advisor is also available to help you with share class questions. The principal considerations are the size of your investment and the anticipated holding period. Over time, you may end up paying higher fees and expenses and may experience lower investment returns with Class C units than you would with Class A units because of the accumulated impact of higher ongoing asset-based fees. For that reason, investors generally should purchase Class A units (the initial sales charge alternative) if they expect to hold the investment over the long term (typically, five years or more). Class C units (the level sales charge alternative) are generally appropriate for shorter-term holding periods. In addition, investors anticipating large purchases should consider Class A units since they typically offer sales-charge reductions beginning at $25,000 that increase as the size of your investment increases.

In order to understand what your investment will cost, you should carefully review with your Financial Advisor or tax professional the 529 plan offering materials, which describe all the fees and expenses associated with a particular plan.

What Restrictions Are Placed on 529 Plan Investing?

Your ability to contribute to a 529 plan is not limited by your household income. However, each state limits the total amount of contributions made on behalf of a particular beneficiary. The purpose is to prevent contributions on behalf of a particular beneficiary in excess of the amount necessary to provide for his or her qualified education expenses. The contribution limits on 529 savings plans vary by plan but are generally quite high.

Federal gift taxes may also influence 529 plan contributions. In general, for 2024, cumulative gifts of more than $18,000 to a single person in a single year may be subject to the federal gift tax. A special federal tax law permits individuals to aggregate five years of the allowable $18,000 annual gift tax exclusion and contribute up to $90,000 ($180,000 per married couple) to an account for a designated beneficiary in one year without triggering the gift tax. This assumes that there are no gifts made by the gift giver to the beneficiary in the prior five years. Any gifts made in the five years prior to or the four years after an accelerated gift is made may result in a taxable event. Various conditions and filing requirements apply. You should consult with a tax advisor for more information on the potential tax ramifications of 529 plan contributions and investments.

How Are Morgan Stanley and My Financial Advisor Compensated When I Buy a 529 Plan?

Brokerage Account Plans – Sales Charges and Account Servicing Payments

Each time you purchase 529 plan units in a commission-based brokerage account, the plan pays an amount to us as compensation based upon the amount of your investment and the share class selected. A portion of these payments is allocated to your Financial Advisor. A 529 plan sponsor's dealer-compensation practices are described in its program offering materials. Typically, for front-end sales charge classes, the plan's distributor pays Morgan Stanley most of the initial sales charge you pay. For back-end sales charge unit/share classes, the distributor pays Morgan Stanley a selling fee at a rate set by the plan. We also receive ongoing distribution and account-servicing payments (sometimes referred to as trails) as long as you continue to maintain your account and we act as your "broker of record." The amount of the compensation that Morgan Stanley receives is a function of the unit/share class that you purchase, and for certain classes, the amount of your purchases. We pay a portion of the compensation to our Financial Advisors based on our standard compensation formulas. These formulas are the same regardless of which plan you purchase. However, some plans may impose higher sales charges than others, which can affect the amount paid to your Financial Advisor. In addition, because plan sales charges are different for their different unit/share classes, the choice of unit/share class can significantly affect the compensation your Financial Advisor receives. The nature of the payments would seem to create a conflict of interest for a financial advisor to recommend 529 Plans and unit/share classes that pay them higher compensation. In order to mitigate this conflict, Morgan Stanley has implemented caps on upfront sales charges and ongoing trails to limit and compress the range of payments your Financial Advisor may receive on these transactions. Clients are encouraged to ask their Financial Advisor how he or she will be compensated for any 529 plan sale.

Advisory Account Plans – Advisory Fees

Our 529 plan advisory account program is not subject to front-end or ongoing transactional sales charges. Rather, fees are charged for the advice and services we provide to clients along with an advisory account platform fee based upon a percentage of billable assets held in the account. Please refer to the applicable Morgan Stanley ADV Brochure for more information on the fees and expenses for these accounts.

Revenue Sharing and Administrative Service Fees – Morgan Stanley charges mutual fund families a support fee, also known as revenue-sharing, based upon Morgan Stanley clients' mutual fund holdings. Many of these mutual fund families also provide products and services to 529 plans and some of them also pay Morgan Stanley revenue sharing on our client 529 plan holdings in their funds. The revenue-sharing rate for 529 Plans is up to a maximum of 0.10% per year ($10 per $10,000 of assets). Revenue-sharing fees are generally paid from the assets, revenues or profits of the fund or plan's investment manager and/or other service providers – not from the fund or plan itself.

We also receive fees for administrative support services provided to mutual fund families and some 529 plans. The fee rate for 529 Plan assets ranges from $18 per plan fund position per year to 0.06% per year ($6 per $10,000 of assets) depending on the plan. However, since Morgan Stanley does not currently collect revenue-sharing or administrative support fees on most 529 plans available at the firm, the nature of the payments would seem to create a conflict of interest for a financial advisor to focus on the 529 plans that do provide such support when recommending a savings plan investment to clients. In order to mitigate this conflict, Financial Advisors and their Branch Office Managers do not receive any part of these fees.

Training and Education Expenses – Morgan Stanley also provides 529 plan managers, many of which also sponsor other investment products such as mutual funds, with opportunities to sponsor meetings and conferences and grants them access to branch offices and Financial Advisors for educational, marketing, and other promotional efforts. These sponsors or their affiliates make payments to Morgan Stanley in connection with these promotional efforts to reimburse Morgan Stanley for expenses incurred for sales events and training programs as well as client seminars, conferences, and meetings. Expense payments may, for example, include meeting or conference facility rental fees and hotel, meal, and travel charges.

Although all 529 plan managers are provided with such access, some managers and their affiliates devote more staff and resources to these activities and therefore have enhanced opportunities to promote their 529 plans to our Financial Advisors. Some 529 plans benefit from certain administrative synergies with Morgan Stanley. These facts present a conflict of interest for Morgan Stanley and our Financial Advisors to the extent that they lead us to focus on those programs when recommending 529 plan investments that benefit from administrative synergies or are sponsored by related fund families that commit significant financial and staffing resources to promotional and educational activities. In order to mitigate this conflict, Financial Advisors and their Branch Office Managers do not receive additional compensation for recommending such programs.

Fund Management Fees – Morgan Stanley receives fees for its sponsorship and management of the underlying mutual funds available in our proprietary 529 plan program offering. These facts present a conflict of interest for Morgan Stanley and our Financial Advisors to the extent that they may lead us to focus on our proprietary 529 advisory account plan when recommending 529 plan investments. In order to mitigate this conflict, these fees are not shared with Financial Advisors and their Branch Office Managers.

For more information on how Morgan Stanley and your Financial Advisor are compensated when you invest in a 529 plan, please review the program offering documents or speak with your Financial Advisor. Further information regarding mutual fund revenue-sharing (including a list of revenue-sharing fund families), administrative service fees and expense payments is available on our website or by calling your Financial Advisor.

Disclosures

If an account owner or the beneficiary resides in or pays income taxes to a state that offers its own 529 college savings or pre-paid tuition plan (an “In-State Plan”), that state may offer state or local tax benefits. These tax benefits may include deductible contributions, deferral of taxes on earnings and/or tax-free withdrawals. In addition, some states waive or discount fees or offer other benefits for state residents or taxpayers who participate in the In-State Plan. An account owner may be denied any or all state or local tax benefits or expense reductions by investing in another state’s plan (an “Out-of-State Plan”). In addition, an account owner’s state or locality may seek to recover the value of tax benefits (by assessing income or penalty taxes) should an account owner rollover or transfer assets from an In-State Plan to an Out-of-State Plan. While state and local tax consequences and plan expenses are not the only factors to consider when investing in a 529 Plan, they are important to an account owner’s investment return and should be considered when selecting a 529 plan.

Tax laws are complex and are subject to change. This information is based upon current tax rules in effect at the time this was written. Morgan Stanley Smith Barney LLC and its Financial Advisors do not provide tax or legal advice. Individuals should always check with their tax or legal advisor before engaging in any transaction involving 529 Plans, Education Savings Accounts and other tax-advantaged investments.

Investments in a 529 Plan are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so an individual may lose money. Investors should review a Program Disclosure Statement, which contains more information on investment options, risks factors, fees and expenses and possible tax consequences. Investors should read the Program Disclosure Statement carefully before investing.

The 529 Plan Program Disclosure contains more information on investment options, risk factors, fees and expenses, and potential tax consequences. Investors can obtain a 529 Plan Program Disclosure from their Financial Advisor and should read it carefully before investing.