



# 529 PLAN

May Brings a Nationwide  
Celebration of 529 Day

*Ask your advisor about the benefits of 529 college  
savings plan*



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May 29th marks the nationwide celebration of 529 Day, an opportunity to highlight the many benefits of 529 college savings plans. As higher education costs continue to soar, many parents find themselves faced with the nagging question, “Will I have enough money to pay for my child’s college education?” Consider that the average cost of tuition and fees for the 2021-2022 school year according to U.S. News and World Report is:

- \$43,775 at private colleges;
- \$28,238 for out-of-state students at public schools; and
- \$11,631 for state residents at public colleges

Worse, from the 2008 edition of the U.S. News Best Colleges rankings to the current 2022 edition, in-state tuition prices among public National Universities grew by almost 79%.

## 529 PLANS CAN HELP

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One often overlooked savings option is a statesponsored 529 plan. These plans offer great tax benefits, while allowing you to contribute substantially higher sums than other savings alternatives.

529 plans generally come in two forms. The first form – prepaid tuition programs – allows participants to lock in tuition rates at eligible state colleges or universities with a lump-sum investment or monthly installment payments. In some states, a portion of the contract value may also be applied to private or outof-state schools. The second form – college savings programs – allows contributions to vary. The full value of the account can be applied at any accredited institution of higher education nationwide. Since 529 plans operate under individual state laws, costs and details vary by state.



## SUBSTANTIAL CONTRIBUTIONS ALLOWED

Some states allow you to set aside over \$500,000 per beneficiary (with no income limitations or age restrictions), compared to \$2,000 annually per beneficiary for a Coverdell Education Savings Account (formerly known as an education IRA).

## TAX BENEFITS

Although contributions are not deductible, earnings in a 529 plan grow federal tax-free and are not taxed when the money is taken out to pay for college. Often times, the 529 account must be open for at least 12 months before any money can be withdrawn, so read the fine print. Further, various states may also offer their own tax breaks.

## SPECIAL ESTATE PLANNING FEATURES

One unique feature of 529 plans is that they allow you to move up to \$15,000 out of your estate (\$30,000 per couple) annually, per beneficiary. Further, current law allows each account owner to pay up to five years of contributions upfront without triggering gift taxes. That means a couple can contribute up to \$150,000 per beneficiary in one move. The donor generally retains control of the account and may be assessed a penalty for “nonqualified” withdrawals.

## OTHER CONSIDERATIONS

Professional Management. 529 plans offer a “hands-off” savings approach: Funds invested in the plan are professionally managed. Penalty for Refunds. You will be subject to a federal 10% penalty on the earnings portion of a nonqualified withdrawal. In addition, the earnings on nonqualified withdrawals are taxed at your tax rate and not the student’s. However, you may be able to avoid a nonqualified withdrawal by rolling over the account to a new beneficiary.

Effect on Financial Aid. Any investment may affect a student's eligibility for financial aid. Earnings withdrawn from a 529 plan are treated as income to the child and will show up on the following year's financial aid application. Thus, you may want to reserve 529 funds for use in a student's later years.

## IT'S WORTH A LOOK

Keep in mind, there is no guarantee that any investment portfolio will achieve its investment goals. The value of your 529 account will fluctuate as the value of the mutual fund shares in which it invests fluctuates, so that your investment, when it is withdrawn, may be worth more or less than its original cost. Also, be aware that out-of-state plans may have in-state income tax ramifications. For more complete information on 529 plans, contact your financial advisor.



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