LET US BE YOUR GUIDE TO:

# 529 plans: What they are, the benefits and getting started

Get schooled on 529s

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529 college savings plans are reliable financial tools designed to help families save for education expenses. They offer tax-advantaged investment accounts with a wide range of benefits and flexibility—making them an attractive option.

Whether you know a lot or a little about 529 plans, use this guide to extend your knowledge and take steps toward securing funds for future college use. When it comes time to pay that first tuition bill, you'll be glad you did.

## What is a 529 plan?

A 529 plan is a tax-advantaged savings account specifically designed for qualified education expenses. 529 plans were initially created strictly to help families save for tuition fees. However, the plan's use has expanded over time to include other education-based expenses. Consider the key benefits of a 529:

### Tax advantages

**One of the primary benefits of 529 plans is their tax-advantaged status.** As long as the money remains in the account, no income taxes are due on earnings. When funds are withdrawn for qualified education expenses, these withdrawals are typically free from federal income tax and, in many cases, state tax as well. Of course, be sure to talk to your trusted advisor to understand available tax advantages.

### Flexibility factor

529 plans offer considerable flexibility in terms of use. While originally designed only to cover college tuition, they can now be used for many other educational costs, too, including:

- Fees, books and other qualified expenses
- K-12 tuition expenses (up to $10,000 per year)
- Certain apprenticeship costs
- Student loan repayments (up to $10,000 lifetime limit)

### Control and gift tax benefits

Unlike custodial accounts, the account owner maintains control of a 529 plan until the funds are withdrawn. This means you can change beneficiaries or use the funds for yourself if circumstances change.

This is done through a special five-year gift tax averaging provision.



## Income restrictions...removed!

This is a big bonus! Today, there are no income restrictions on who can open or contribute to a 529 plan account, making them accessible to families across all income levels.

# Common 529 plans

There are two main types of 529 plans:

**1. Education savings plans:** These are the most common type of 529 plans. They function similarly to Roth 401(k) or Roth IRA accounts, allowing you to invest after-tax contributions in mutual funds or other investment options. The account's value fluctuates based on the performance of the chosen investments.

**2. Prepaid tuition plans:** These plans allow you to prepay all or part of the costs of an in-state public college education. Some plans also offer the option to convert the savings for use at private or out-of-state colleges.

# Navigating a 529 plan

Starting a 529 fund is fairly straightforward. If you already have a financial planner or trusted accountant, start there. These experts can guide you on setting up the right type of account or refer you to a vetted source.

## Getting started

- **Open an account:** Anyone can open a 529 plan account, regardless of their relationship to the beneficiary. Parents, grandparents, other relatives or even friends can start an account. The person who opens the account becomes the account owner and maintains control of the funds.

- **Choose a beneficiary:** The beneficiary is the person for whom the account is intended. This can be anyone with a Social Security or Tax ID number, including yourself. You can change the beneficiary later if needed, typically to another qualifying family member.

- **Select a plan:** You're not limited to your own state's 529 plan. You can choose from plans offered by any state, but it's worth checking if your state offers tax benefits for contributions to its plan. Again, this is where a trusted advisor can be of great help.

## Using 529 funds

**When it's time to use the funds, you can withdraw money for qualified education expenses without incurring federal income taxes on the earnings.**

You can typically have funds sent directly to the educational institution (e.g., to pay tuition fees) or pay out of pocket and request reimbursement (e.g., books, on-campus parking or supplies).

**Qualified expenses typically include:**

- Tuition and fees
- Room and board (for students enrolled at least half-time)
- Books and supplies
- Computer equipment and internet access
- K-12 tuition (up to $10,000 per year)
- Apprenticeship costs
- Student loan repayments (up to $10,000 lifetime limit)

## Potential drawbacks

As you move down the 529 path, it's good to understand certain limitations and pitfalls to avoid. While 529 plans offer many benefits, there are some potential drawbacks to consider:

- **Non-qualified withdrawals:** **If you withdraw funds for non-qualified expenses, you'll owe income tax and a 10% penalty on the earnings portion of the withdrawal.** So make sure you save all receipts in case you're ever audited.

- **Limited investment options:** You're restricted to the investment options offered by the specific 529 plan.

- **Fees:** All 529 plans have associated fees, which can vary between plans.

- **Impact on financial aid:** While 529 plans typically have a relatively minor impact on financial aid eligibility, they are still considered in the calculation.

# Choose the right plan and get started

529 college savings plans offer a tax-advantaged way to save for education expenses, with benefits that extend beyond just college costs. Their flexibility and tax advantages make them an attractive option for many families. However, it's important to carefully consider your specific circumstances and goals when deciding if a 529 plan is right for you.

**Choosing the right plan is important, so make sure you check into key factors, including:**

- **State tax benefits:** Check whether your state offers tax deductions or credits for 529 contributions.
- **Investment options:** Look for plans with a diverse range of low-cost investment options.
- **Fees:** Compare the fees of different plans because they can impact your overall returns.
- **Performance:** While past performance doesn't guarantee future results, it's worth reviewing the historical performance of the plan's investment options. Lean on your trusted advisor for deeper insights into performance.
- **Features and flexibility:** **Consider factors like the ability to change beneficiaries, minimum contribution requirements and maximum contribution limits.**

By understanding the features, benefits and potential drawbacks of 529 plans, you can make an informed decision. Higher education is always money well-spent; just make sure you plan for it.



# Don't be shy! We're here for you.

We're here to help you navigate your financial future. If you have any questions about the information presented in this educational guide, please reach out and a member of our staff can help get you the right answers. Really. We mean it. Don't be shy. Ask away!