CONSERVATIVE
FINANCIAL SOLUTIONS

Saving For College | The 529 Plan

A college degree is increasingly becoming necessary to obtain a professional occupation in our society today. An interesting statistic that most may not be aware of is that over the course of a lifetime, workers with a bachelor's degree will earn 70 percent more than one with a high school diploma. If you break the averages down into dollars, a person holding a bachelor's degree will make around $23,764 more a year than someone with a high school education.

With those types of numbers, it makes sense that we are sending more children to college than we ever have before. But with increased demand comes higher tuition prices, colleges have limited space, and students are beating down the doors to get in. Over the last 10 years, tuition inflation has averaged 3.1 percent higher than regular inflation. A tuition inflation rate of six percent would indicate that a family with a child born today can expect the current cost of tuition to increase 150 percent over the next 18 years. This is why I share with families, whether you are a parent or a grandparent, it is never too early to start saving for college. One of the ways, to start saving for college is through a 529 plan.

A 529 plan is a tax-advantaged savings plan specifically designed for paying future higher education expenses. As stated by the U.S. Securities and Exchange Commission, 529 plans, legally known as "qualified tuition plans," are sponsored by states, state agencies, or educational institutions and are authorized by Section 529 of the Internal Revenue Code. There are two types of 529 plans that exist: pre-paid tuition plans and college savings plans. All fifty states, plus the District of Columbia, sponsor at least one type of a 529 plan. These plans will be one of the key places to save for higher education expenses. It is important to know the differences in these plans, and two excellent resources are the U.S. Securities and Exchange Commission and the College Savings Plans Network websites.

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There are a few commonalities between all 529 plans no matter which state you live in. First, all money grows free from federal and state income-tax and anyone can contribute to the plan. Second, all distributions from a 529 are federal and state income tax-free, as long as they are used to pay for qualified education expenses. Third, a key advantage to all 529 plans is the beneficiary designation. The account holder names the beneficiary and retains control of the assets within the program regardless of the age of the beneficiary. Finally, the account holder has the option to change the beneficiary to another child or family member, should the original beneficiary decide that college is not the path for them.

"What happens if the beneficiary decides that continuing to higher education is not the best fit for them, and there is not another person to list as the 529 plan's beneficiary?" Rest assured, the money is still available to the account holder; however, they will face a penalty in the event that the money is withdrawn and not used for qualified higher education expenses. Investors need to be aware of the risks of investing in a 529 plan, but most view the benefits strongly outweigh the risks.

There is an abundant amount of information readily available online concerning 529 plans. Financial advisors are also a wonderful resource for information regarding savings plans for college and beyond. At CFS, we are equipped to advise you through the development of a plan that will help you reach your financial goals. The cost to attend college is steadily increasing each year, with no indication of slowing down in the future. Start investing for the future now, and allow for a better chance of financial freedom down the road.

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