Saving for College?

Consider a 529 Plan

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It's a major American crisis: student debt. Too many students are finishing their education with a mountain of debt that can take years, even decades to pay off. Fortunately, Uncle Sam provides a way to avoid all or at least much of that debt. They are called 529 Plans, savings plans with no contribution limits that allow you to pile up money, including tax-free investment earnings, to pay for tuition and related expenses.

HERE'S HOW 529 PLANS WORK:

- The plans are state-specific, that is, administered by states, and according to each state's rules and options. In most cases, you don't have to use your state's plan if there is another plan approved by your state for your participation that suits you better.

- If you are a parent opening a 529 for one or more of your children, you are the account holder. You can open your plan with a lump sum or contribute gradually over the years. And others, like grandparents, uncles, even friends, can make contributions to your plan.

- There are no restrictions in terms of your income to opening a 529 account. And withdrawals, including investment earnings, are tax free.

- Savings can be used for tuition, but also for related expenses, like room and board, books and computers. And if you don't use all the funds for one student, you can transfer funds to another immediate family member with no penalty. So you only need to open one account for all your children's educations.

- You can also transfer the funds to a different investment account without tax or penalty on the principle. The earnings are subject to taxation as ordinary income plus a 10 percent penalty.

- The funds aren't limited to college educations. You can withdraw up to $10,000 annually to pay for kindergarten through 12th grade schooling, a feature frequently used by parents planning to send their children to private schools. 529 savings can also be used for post-secondary education and graduate school, and for junior colleges, community colleges and vocational schools, as long as the institution is accredited.

- Most 529 plans are pre-bundled investments. None allow you to pick individual stocks, though some offer stock-based funds. A best practice is to choose an investment vehicle consistent with your purpose and investment philosophy.
- If you are completing a Free Application for Federal Student Aid (FAFSA) form, the assets in your 529 plan will count against you in the FAFSA calculation. So it might make sense to assign someone else, such as a grandparent or uncle, as the 529 account holder.

MORE ABOUT FAFSA:

- FAFSA aid decisions are based on combination of student financials and family financials: 50 percent of the student's income and 20 percent of his or her assets, plus 22 to 47 percent of family income on a sliding scale that tops out at an annual income of $85,000, and up to 5.64 percent of family assets, again based on the amount of assets.
- Calculations are based on your two most recent federal tax returns.
- If you have opened an account under a name other than that of an immediate family member, it is best to hold off withdrawals until the third year of college. If you use the money during the first two years it will count toward student income in the FAFSA calculation.

If you have questions about 529 Plans or other ways to save for your children's educations, call us. We're here to help you design the strategy and plan best for you and your family.

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Michael serves as a financial advisor in the Fredonia, New York. office of HBKS® Wealth Advisors. He specializes in providing personal financial planning for investments, retirement, protection planning, retirement income, estate planning strategies, education funding, tax management strategies and wealth preservation strategies.

Michael joined HBKS® in 2018 after working as a financial advisor and field director for Northwestern Mutual for six years. He earned his Bachelor of Science degree in Finance from Duquesne University.