

With a combined 50+ years of experience, 2X Wealth Group is committed to educating and empowering investors. We firmly believe financial literacy helps people make better decisions.

The Many Benefits of a 529 Savings Plan

529 Plans are an effective way to save for college if you want tax efficient investing that is easy to set up, fairly flexible, and allows other family members to participate.

Types of 529 Plans

A **529 Savings Plan** is an investment account that offers tax-free growth and withdrawals when used to pay for qualified education expenses. In addition to covering college tuition, room and board, qualified expenses include apprenticeship programs, up to \$10,000 per year for K-12 tuition, and even paying off up to \$10,000 in student loans. Starting in 2024, a new provision enables 529 beneficiaries to roll up to \$35,000 of unused balances into a Roth IRA, allowing ongoing tax advantaged investing.

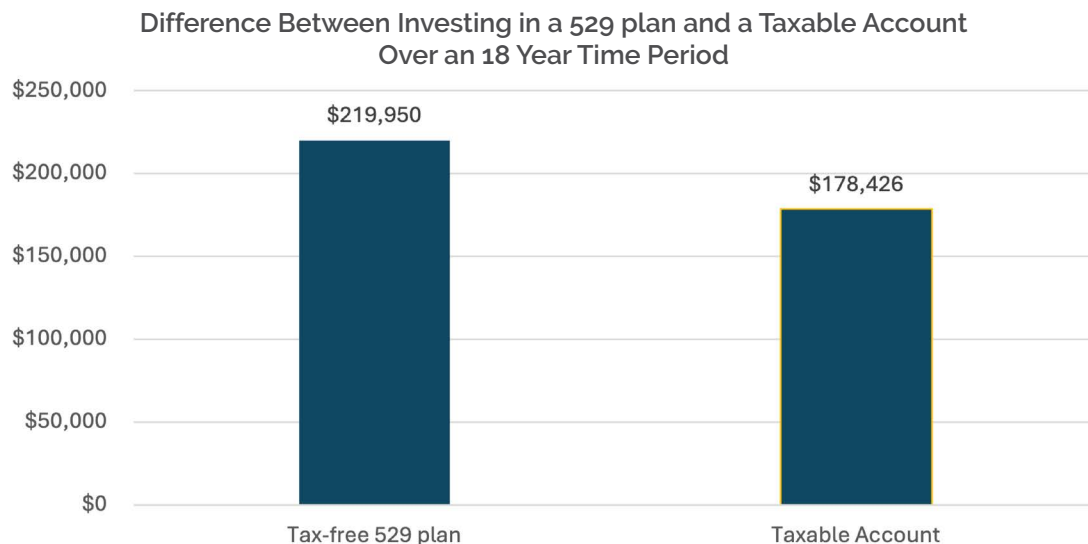
A **529 Prepaid Tuition Plan** lets you prepay all or part of the costs of an in-state public college education, which offers protection against rising education costs. Typically, you or the student must reside in the state offering the plan. If circumstances change, you can convert the funds for use at private or out-of-state colleges.

Advantages of a 529 Savings Plan

Tax Benefits

- Offers tax-free growth and withdrawals for qualified education expenses
- Plan *contributions* are tax deductible in most states, but not California

In the following chart, we show how the tax advantages of a 529 plan can allow your money to grow significantly more than a taxable account with the same investments.



J.P. Morgan Asset Management. Illustration assumes an initial \$10,000 investment and monthly investments of \$500 for 18 years. Chart also assumes an annual investment return of 6% compounded monthly, and a federal tax rate of 32%. Investment losses could affect the relative tax-deferred investing advantage. This hypothetical illustration is not indicative of any specific investment and does not reflect the impact of fees or expenses. Each investor should consider his or her current and anticipated investment horizon and income tax bracket when making an investment decision, as the illustration may not reflect these factors. These figures do not reflect any management fees or expenses that would be paid by a 529 plan participant. Such costs would lower performance. This chart is shown for illustrative purposes only. Past performance is no guarantee of future results.

Estate Planning Benefits

- Plan contributions and investment gains are removed from the estate of the account owner who provided the funds.
- Contributions can be front end loaded. *Up to five times* the standard gift tax exclusion amount can be contributed to a 529 plan, or \$90,000 per donor per child. If this option is used, no additional gifts can be made to the same beneficiary over a 5-year period.

Control and Flexibility

- The plan beneficiary can be changed to another 'family member' as defined by the IRS (e.g. siblings, step siblings, grandchildren, adopted children, even first cousins).
- Anyone can contribute to the 529 plan, and grandparents are common donors.
- Money can be kept in a 529 plan indefinitely, allowing for legacy educational funding.
- Leftover funds, up to \$35,000, can be rolled into a Roth IRA for the 529 beneficiary. Some restrictions apply: the account must have been in effect for 15 years and a maximum of \$7000 can be transferred in any given year.
- Up to \$10,000 per year per beneficiary can be used for eligible K-12 schools.

Ease of Use

- No income limits for contributors
- No age limits on beneficiaries
- Minimal impact on financial aid
- No mandatory withdrawals
- High total contribution limits, as much as \$400,000 per beneficiary.
- Many plan providers to choose from

Disadvantages of a 529 College Savings Plan

- Non-qualified withdrawals may be subject to federal income tax, a 10% penalty tax and state and local taxes. This can be a problem if you fully funded college and your child decides not to attend.
- Investment choices can be limited, although the options are much better now than in the past.

How Do You Decide *When* and *How Much* to Put Into a 529 plan?

Your own financial situation will affect whether you fund a 529 savings plan up front or over time. The earlier you contribute, the lower your contributions need to be to reach your goal - since there will be more time for the 529 plan investments to grow.

If desired, plan providers will set up automatic monthly deductions from your bank account, aiding regular contributions. At the other extreme, front end loading a 529 plan at birth with up to \$90,000 can potentially fund all of college. This strategy is best when you have other beneficiaries in mind (in case the original beneficiary doesn't need educational funding).

If you are uncertain whether your child(ren) will attend a cheaper in-state college or one out of state, you can choose to fund the lower cost option plus a bit extra which can be rolled to a Roth IRA. Keep in mind, many students don't graduate in 4 years, making college costs even higher. We often suggest combining taxable savings with 529 savings plans to add flexibility and avoid withdrawal penalties from an overfunded 529 account.

Lastly, try to avoid these pitfalls...

- Don't use retirement funds for 529 plan contributions.
- Don't borrow from a home equity line to fund a 529 plan.
- Be careful not to overspend with K-12 withdrawals, which could jeopardize college funding.

If you'd like to know more, please contact us at lori@2xwealth.ingalls.net or lisa@2xwealth.ingalls.net.

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Need help sorting this all out? Make an appointment with us to help you through it.

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