529 DAY –
CELEBRATING THE PATH TO SMART SCHOOL SAVINGS

WHAT IS NATIONAL 529 DAY, AND WHY DOES IT MATTER?

Saving for their future education is one of the most important things you can do for your children, grandchildren, nieces and nephews, or friends. Many of the fulfilling and high-earning careers they will dream of pursuing will require some further education after high school. Whether it's a four-year college degree or an apprenticeship, those education pathways each come with tuition and other related expenses. Luckily, there's a great way for families to help meet those costs!

Observed each year on May 29, National 529 Day is a fun way to raise awareness about the importance of saving for future education expenses. But the main purpose of National 529 Day is to highlight the benefits of saving with a 529 plan for those education needs – whether that means college, trade or technical school, or a registered apprenticeship program.

Those that choose to invest in the education of a family member, friend or acquaintance are investing not only in that individual's future, but also the future of society. It is an act of generosity, forward-thinking, and love. Let's face it, the cost of college grows every year, as everything across the board does. Why not be able to give the future generation some help in pursuing their careers and goals?

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SO, WHY A 529 PLAN?

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A 529 plan is a tax-advantaged investment tool that can help families save more for future education needs, including K-12 tuition, college tuition, course material apprenticeship expenses, room and board, technology needs, and more.

There are two kinds of 529 plans:

- College Savings Plan: Ideal if you want more flexibility in your investments, are unsure of the beneficiary's future plans, or want to cover a wider range of educational expenses.
- Prepaid Tuition Plan: Ideal if you know the beneficiary will attend a specific public institution and you want to protect against tuition increases.

Tax Advantages: Contributions to a 529 plan enjoy tax-free growth and withdrawals for qualified expenses are also totally tax-free. If your state allows them, tax deductions or credits might be available when you contribute to a 529 plan, so check your state's rules.

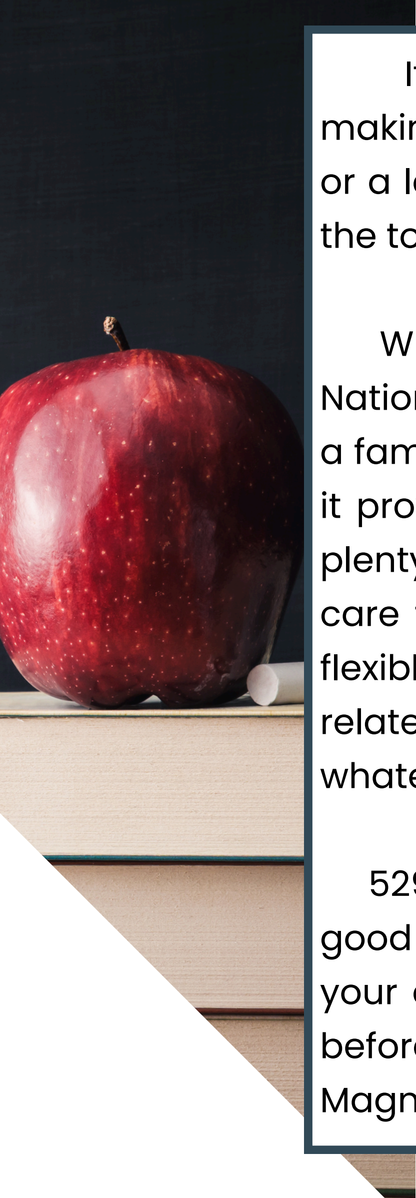
Contribution Limits: Incremental post-birth contribution limits vary by state but may be large, up to $300,000 per beneficiary and beyond. Contributions to a 529 plan fall within the annual gift tax exclusion ($18,000 in 2024 per beneficiary)[1], and you may make larger contributions (up to $85,000) in a year and elect to treat them as though they were made over five years for lower gift taxes.

Investment Options: College savings have a variety of investment mixes, including age-based portfolios that get more conservative as the beneficiary nears college age. Check portfolio performance regularly and adjust as appropriate to the risk tolerance and investment goals.

Qualified Expenses: Qualified expenses may include the cost of tuition and fees, course materials (including books, supplies, and equipment), and the expenses of transporting the student to and from the institution. It may also include student loan repayments, apprenticeship expenses, computer technology and equipment related to education, and certain special needs expenses. Room and board are qualified expenses if the beneficiary is enrolled at least half-time. If applicable, there is also a specific 529 ABLE plan to support the immediate and longer term needs of children with disabilities.

Additionally, as of 2018 K-12 tuition of up to $10,000 a year may be paid at private, public or religiously associated schools. Finally, a 529 account may pay up to $10,000 (over the lifetime of the policy) to repay the designated beneficiary's or their siblings' student loans.

It's worth noting that some plans have a limit of only one beneficiary at a time, so if you have multiple children whose education you want to help fund, you may need multiple plans. As you know, using any savings vehicle is only valuable if you understand how it works. Take the time to read up on 529 plans and understand your investment options – and then periodically check back to be sure that your plan and investments are still in sync with what works for your needs.



If you already have a 529 account set up, celebrate 529 Day by making an extra contribution to your account. It can be a small amount or a large amount. Every contribution added to an account could make the total sum grow not only larger but also faster.

What if you don't have a child of your own? You can still celebrate National 529 Day by contributing to an account that benefits the child of a family member or close friend. Your contribution is tax-deductible, and it provides a unique and meaningful gift. When a child in your life has plenty of toys, there's no better way to offer your support and show you care than by helping them achieve their future dreams! 529 plans are flexible in terms of who can contribute. A person doesn't have to be related to a beneficiary to help give them the financial freedom to learn whatever and wherever they like.

529 Day helps boost awareness of 529 plans each year, so it's also a good time to approach friends and family members to contribute to your child's savings for education. If they've never heard of a 529 plan before, you can direct them to helpful resources like your advisors at Magnum Wealth Management.

DEBUNKING 529 MYTHS

There are Time and Age Limits on 529 Plans

There are no time or age limit on using a 529 college savings plan. Money can be kept in a 529 plan indefinitely. 529 plans can be used for graduate school, not just undergraduate school, and can be passed on to one's children.

The State You Reside in is the Only State You Can Use the 529 Plan in

There aren't restrictions on college locations. You can live in California, invest in a Vermont plan, and send your student to college in North Carolina.

Only Large Sums of Money Can Be Deposited

There are not usually minimum contribution requirements for a 529. You don't need a large sum to start a 529 plan. Many plans have very low minimums to open an account, sometimes as low as $1 or $25. There is also flexibility to contribute over time. You can contribute whatever amount you can afford, whenever you can. This makes 529 plans accessible to a wide range of families. Moreover, 529 plans are designed to benefit families of all income levels, not just those with significant funds to invest.

529 Plans Have Income Restrictions

While some college savings plans have income limitations to receive federal tax benefits, you can receive federal tax benefits for a 529 plan regardless of your income bracket. Your tax-free qualified withdrawals may be more valuable if you are in a higher income bracket with a 529 plan.[2]

Only a Parent May Open Up a 529 Account

There is no restriction stating that only a parent of a child may open up an account on a student's behalf. Grandparents, friends, aunts, uncles, etc., may open an account, as the student is the beneficiary. A parent may also open an account and invite other family members to contribute.[2] Students can also open a 529 plan, naming themselves the beneficiary, if they are at least 18 years old.

Money is Lost if Your Child Doesn't Go to College

If your child decides not to continue their schooling, then it does not mean that the funds are lost. You may change the beneficiary to another family member or make a non-qualified withdrawal. When making a non-qualified withdrawal, the earnings are subject to federal and state income tax and a 10% federal tax to recoup the tax deduction for when the money was contributed to the account.[3]

Having College Savings Affects Financial Aid

Financial aid views the 529 plan as the parent's asset, not the students, so it may only have a minimal impact when determining eligibility for financial aid, reducing it by no more than 5.64% of the plan's account value. If the account is under a grandparent or other family member's name, it is not factored into financial aid eligibility but might be considered the student's income when withdrawals are made.[3]

Money in a 529 Plan May Only Be Used for Tuition

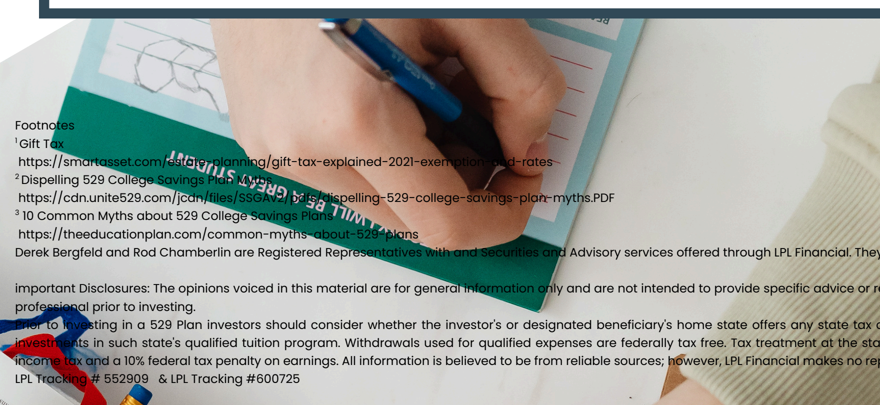
There are several qualified expenses that 529 plan funds may pay for aside from tuition, such as books and certain software. They also may be used for supplies, technology, room and board for full or part-time students, and other school-related fees.[2] Furthermore, if your child gets a scholarship or full ride to college, the 529 plan can be used for their continuing education such as business, graduate, law, or medical school. The 529 plan can also be transferred to another beneficiary.

If Your Child is in High School, it's Too Late to Start a 529 Plan

While your 529 plan account may have longer to grow the earlier you start, you may benefit from opening one anytime. Since the earnings are automatically reinvested, the contributions to a 529 plan still have some time to grow, even if the account is not started until your child is in high school.[2]

Once 18, The Child Can Spend the Money on Anything They Want

Savings in a 529 account are your assets, not your child's. The account holder controls the funds. Even when your child turns 18 years of age, they have no legal right to the money.



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Footnotes

[1] Gift Tax
https://smartasset.com/estate-planning/gift-tax-explained-2021-exemption-and-rates

[2] Dispelling 529 College Savings Plan Myths
https://cdn.unite529.com/jcdn/files/SSGAV2/pdfs/dispelling-529-college-savings-plan-myths.PDF

[3] 10 Common Myths about 529 College Savings Plans
https://theeducationplan.com/common-myths-about-529-plans

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