UNITED STATES SENATE FEDERAL CREDIT UNION

WEDNESDAY WEBINAR

529 College Savings Plans

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529 College Savings Plans:
Your Questions Answered

- What is a 529 plan?
- How does a 529 plan work?
- What are the tax benefits?
- How do I choose a 529 plan?
- How much can I contribute?
- Who can contribute?
- Will having a 529 plan affect financial aid?
- What are qualified education expenses?
- How do I make withdraws?
- What if my child doesn't go to college?
- What happens to leftover money?
- Can I open a 529 plan for my grandchild?

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529 Plans:
What is a 529 Plan?

- A 529 plan is an **investment account** that offers **tax benefits** when used to pay for qualified **education expenses** for a designated beneficiary.

- 529 plans allow investors to save money in an account in which the **earnings grow income-tax deferred** and when used to pay for "qualified higher education expenses" will be **federal income tax-free**.

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529 Plans:
What is a 529 Plan?

- You can use a 529 plan to pay for college, K-12 tuition, apprenticeship programs, and even student loan repayments.
- If using a 529 plan to save for college, your savings will have a minimal impact on financial aid eligibility.

529 Plans:
What is a 529 Plan?

- Plans offer a variable rate of return based on the performance of the underlying investments.

- Plans generally carry investment risk, which means the account value may increase or decrease depending on market conditions.

529 Plans:
Different Types of 529 Plans

There are 2 kinds of 529 plans:

- Prepaid Tuition Plans
- College Savings Plans

529 Plans:
Prepaid Tuition Plans

- Purchase future tuition today at a lower rate at any of a state's eligible colleges or universities (or equal payments to private and out-of-state institutions).

- These programs pool money and make long-range investments so that earnings meet or exceed college tuition increases in the home state.

529 Plans:
College Savings Plans

- Allows participants to save money in a college savings account to fund a designated beneficiary's qualified higher education expenses.

- Contributions limits vary depending on the characteristics of individual plans.

529 Plans:
Quick Stats

- Number of 529 College Saving Plan Accounts: 7.2 million
- Account Value: $411.2 billion
- Average Balance: $25,630

Source: College Savings Plan Network, as of 12/31/22

529 Plans:
How Do 529 Plans Work?

- Individuals purchase interests in a trust established by the state or its instrumentality.
- Trust assets are invested according to the trust's stated investment objectives.
- Issuers typically engage investment management firms to manage the investment of trust assets.

529 Plans:
Who Provides 529 Plans?

- A direct-sold 529 savings plan is 529 savings plan that is sold directly by a state, financial institution.

- Advisor-sold 529 plans are available through Registered Investment Advisors (RIAs) and Broker-Dealers.

- In some states, investments may only be made through state personnel; in others, investments may only be made through broker-dealers; and in others, investments may be made by either.

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529 Plans:
The Benefits of 529 Plans

- 529 plans offer unsurpassed income tax beaks.
- Your own state may offer tax breaks as well.
- You’ll benefit from high contribution limits.
- You can Use 529 plan contributions to reduce your taxable estate.

529 Plans:
How to Choose a Plan

- Nearly every state has at least one 529 plan available, but you're not limited to using your home state's plan.
- Each 529 plan offers investment portfolios tailored to the account owner's risk tolerance and time horizon.
- There is no benefit or drawback to the state your plan is sponsored in as long as it is a nationwide 529 plan.

529 Plans:
How Much Can I Contribute?

- **Each state also has an aggregate contribution limit for 529 plans, which ranges from $235,000 to $550,000.** This amount is based on the price of attending an expensive college and graduate school program, including textbooks and room and board.

- **Aim to save about one-third of your projected future college costs**. This assumes you can cover the remaining two-thirds with current income, including scholarship funds, and student loans.

529 Plans:
Will Having a 529 Plan Affect Financial Aid?

- Assets held in the 529 plan receive favorable treatment on the Free Application for Federal Student Aid (FAFSA), and distributions are not reported.

- May be a greater impact on aid eligibility when a grandparent or other third party owns the 529 accounts.

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529 Plans:
What Are Qualified Education Expenses?

- Tuition and fees
- Books and materials
- Room and board (for students enrolled at least half-time)
- Computers and related equipment, internet access
- Special needs equipment for students attending a college, university or other eligible post-secondary educational institutions.

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529 Plans:
How to Withdraw Funds From a 529 Plan

- Most plans allow you to distribute the payments directly to the account holder, the beneficiary, or the school.
- Some plans may allow you to make a payment directly from your 529 accounts to another third party, such as a landlord.
- Check with your own plan to learn more about how to take distributions from your account.

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529 Plans:
What if My Child Doesn't Go to College?

Generally, you will pay income tax and a penalty on the earnings portion of a non-qualified withdrawal, but there are some exceptions. The penalty is waived if:

- The account beneficiary receives a tax-free scholarship
- The account beneficiary attends a U.S. Military Academy
- The account beneficiary dies or becomes disabled

529 Plans:
What Happens to Leftover Money?

If you have leftover money in your 529 plan and you want to avoid paying taxes and a penalty on your earnings, you have a few options, including:

- Change beneficiary to another qualifying family member
- Hold the funds in the account in case beneficiary wants to attend grad school later
- Make yourself beneficiary and further your own education
- Roll over the funds to a 529 ABLE account

529 Plans:
What Happens to Leftover Money?

- Since January 1, 2018, parents also have the option to take up to $10,000 in tax-free 529 withdrawals for K-12 tuition.

- Since January 1, 2019, qualified distributions from a 529 plan can repay up to $10,000 in student loans per borrower for both the beneficiary and the beneficiary's siblings.

- Beginning in 2024, up to $35,000 of 529 plan assets may be rolled over into a Roth IRA if the plan has been open for at least 15 years.

529 Plans:
Who Can Open a 529 Plan?

- Parents, grandparents, friends, and even students themselves (if they are 18 years old) can open a 529 college savings plan to start a college fund.

- You can open an account and name a beneficiary who doesn't even know about it until you want them to use the funds if you desire.

- While anyone can open a 529 plan, each plan can only have one beneficiary at a time.

529 Plans:
Contributions for Grandparents

Estate-Planning Benefits

- 529 plans offer unique benefits for grandparents, including reducing estate tax exposure, being able to retain control of the assets throughout the life of the account, ease of management and flexibility.

529 Plans:
Access to professional investment advice.

We're here to help you pursue your college saving goals.

Call **571.205.1515** or schedule an appointment to get started.

ussfcu.org/fas

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529 Plans:
Related Resources

- The College Savings Foundation
- SEC Introduction to 529 Plans
- Internal Revenue Service: Tax Benefits for Higher Education
- Internal Revenue Service 529 Plans: Questions and Answers
- North American Securities Administrators Association
- College Savings Plans Network

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