



## What You Need to Know About 529 Plans

A recent study by the College Board found the average annual cost of tuition and fees at a four-year private institution was \$36,880 (2019-2020)<sup>1</sup>. With education expenses steadily increasing over the past 30<sup>2</sup> years and total U.S. student loan debt soaring to \$1.4 trillion<sup>3</sup>, saving for college is as sensible as it is critical.

We recommend using a 529 Plan to help maximize your education savings.

### What is a 529 Plan?

A 529 Plan is an education savings plan offered by a state or educational institution to help families set aside funds for future school costs.

### What are key benefits of a 529 Plan?

In most cases, 529 plans offer significant tax and investment benefits. While these plans are typically used for college savings, recent tax law changes now allow families to use up to \$10,000 per student each year for elementary and secondary education tuition expenses.\*

#### TAX-FREE WITHDRAWALS

If the funds are used for qualified education expenses\*, the withdrawals are exempt from state and federal taxes.

#### STATE TAX BENEFITS

Many states offer either a deduction or credit for contributions made to a 529 plan.

- If you're a New York state taxpayer and an account owner, you may be able to deduct up to \$5,000 (\$10,000 if you're married filing jointly) of your Direct Plan contributions when you file your state income taxes.\*

#### TAX-DEFERRED GROWTH

Earnings grow tax-deferred from federal and state taxes.

#### GIFT-TAX BENEFITS

Contributions qualify for the \$15,000 annual gift exclusion, even if you are the owner (not the beneficiary) of the plan. Additionally, you can front-end load a 529 plan for up to five years (max. \$75,000 for individuals; \$150,000 for a married couple filing jointly) to help reduce your personal estate.

\* Source: "Direct Plan tax benefits." NY's 529 College Savings Program, State of New York. 2018. <https://www.nysaves.org/home/why-ny-529-direct-plan/tax-benefits.html>.

## Investment Choices:

- **Investment Management:** Most 529 plan investments are mutual funds managed by large, well-established fund companies.
- **Approach:** You can choose an age-based option or static option:
  - **Age-based** - This portfolio will automatically adjust the stock/bond mix according to the age of the beneficiary. Because stocks, as an asset class, are considered to have higher returns and higher risk, the longer the time horizon, the more stocks you can hold. For example, funds for a younger child will likely have a higher stock allocation because there is a greater length of time before the funds are needed. As the child nears college age and the time horizon shrinks, funds are allocated to less risky investments, such as bonds.
  - **Static choice** - You choose one or more investments offered within the 529 plan and hold them. It becomes your choice when to become more or less aggressive.

## Contribution Eligibility:

- Unlike other education savings plans, your income does not restrict you from making contributions to a 529 plan.
- While there is a contribution limit for a 529 plan account, it's high. The limits are state-specific, but range from \$235,000 to \$500,000+ in aggregate contributions.

***\*Please keep in mind, this change was made on a federal level. Some states have not adopted this change. We recommend you consult with your tax advisor prior to making withdrawals or distributions from a 529 plan for K-12 expenses.***

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1 "Trends in College Pricing 2019," Trends in Higher Education Series. The College Board, 2019. Page 9. <https://research.collegeboard.org/pdf/trends-college-pricing-2019-full-report.pdf>

2 "Trends in College Pricing 2019," page 12.

3 "Students & Debt." Debt.org, 2020. Accessed April 2, 2020. <https://www.debt.org/students/>.

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