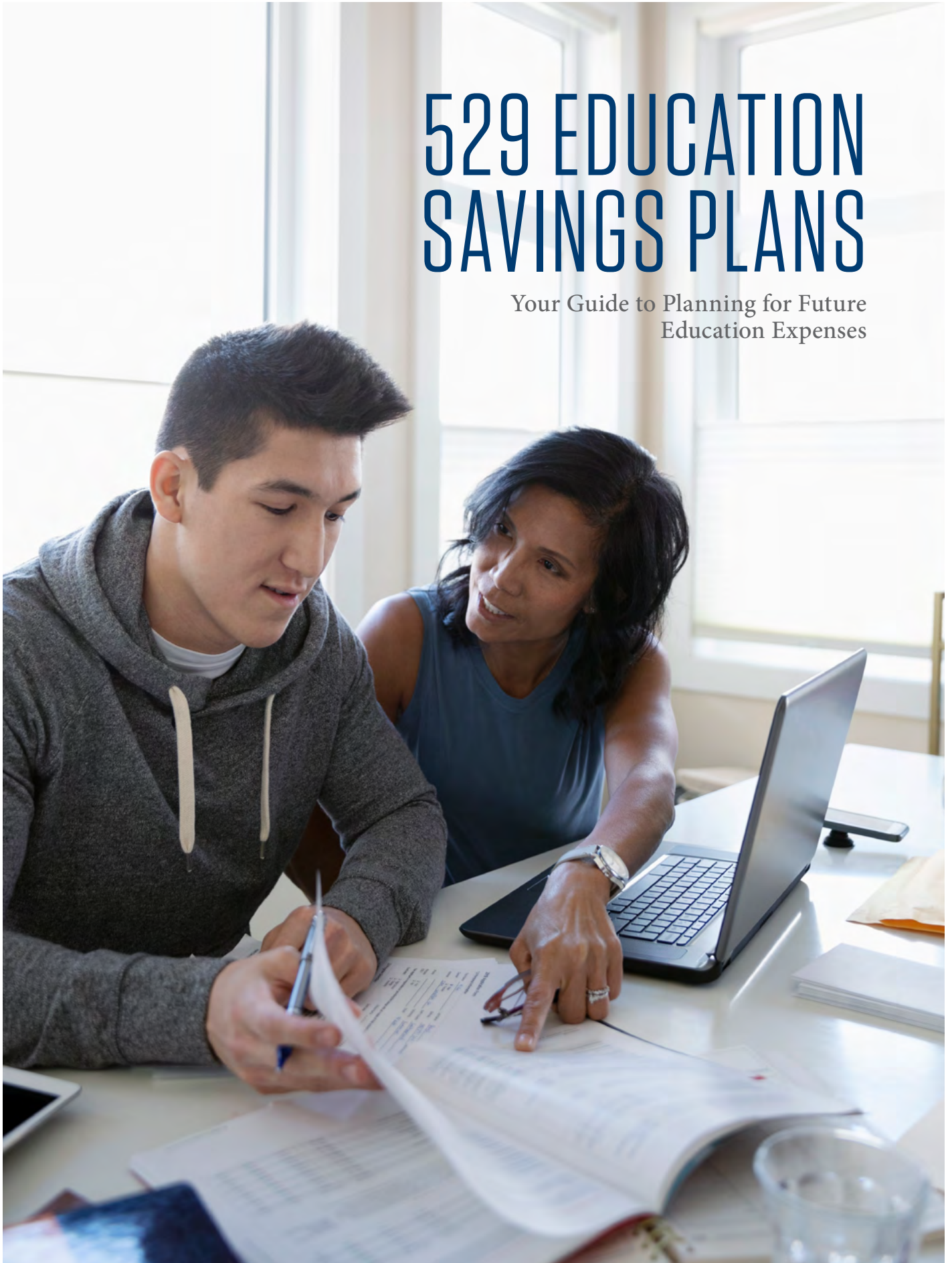


# 529 EDUCATION SAVINGS PLANS

Your Guide to Planning for Future Education Expenses



Whether or not you've already started saving for a child, grandchild, or your own education needs, there are a number of tax-advantaged strategies that can help you address your goals. Among the most popular are 529 college savings plans, offering federal, and in many cases, state tax benefits. Unlike regular savings accounts, the money you contribute to a 529 account, along with the account earnings, isn't taxed when used to pay for qualified education expenses. That enables you to save even more money for college, and as education costs continue to rise, saving money has become more important than ever.

## COLLEGE COSTS CONTINUE TO RISE

Rising college costs have made it increasingly challenging for families to pursue their education planning goals. According to the College Board, between 2008 and 2019, in-state tuition and fees at public four-year institutions rose at an average, inflation-adjusted rate of 3.1% per year.<sup>1</sup> However, that trend slowed in 2020, as many institutions chose to freeze tuition and fees during the COVID-19 pandemic. As a result, the average tuition and fees paid by in-state students at public four-year institutions increased by only 1.1%

between the 2019-20 and the 2020-21 school years, marking the lowest increase in 30 years.<sup>2</sup>

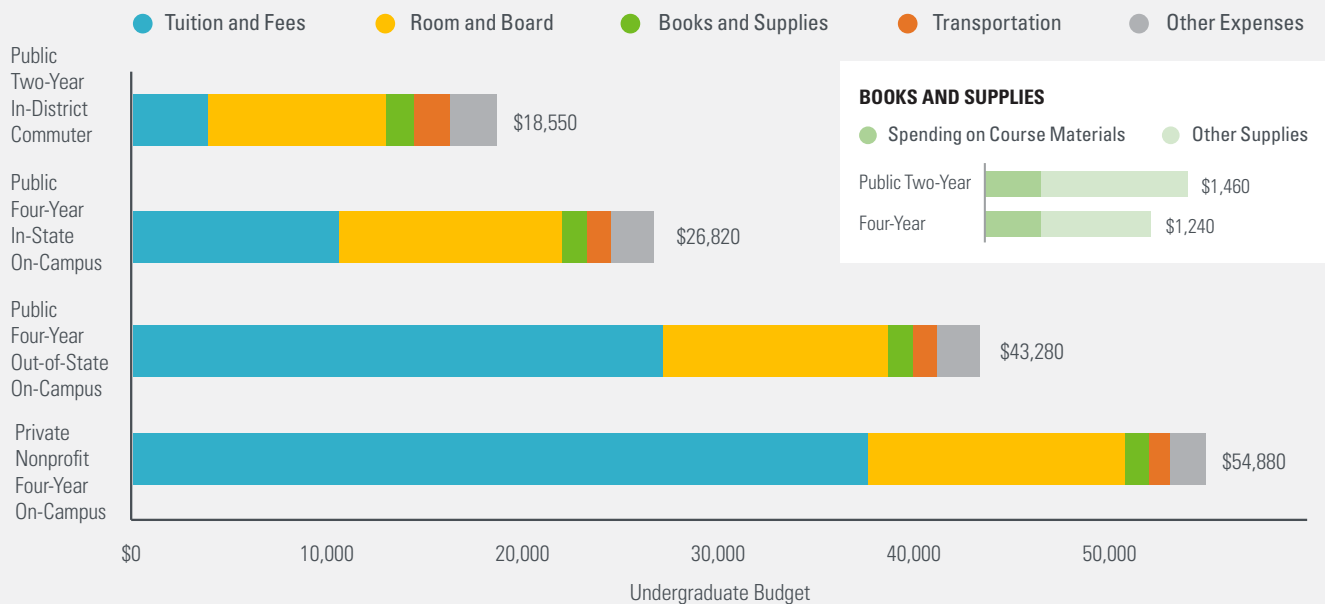
The average tuition and fees for in-state public colleges during the 2020-2021 academic year carried a sticker price of \$10,560, compared to \$27,020 for public, out-of-state institutions, and \$37,650 for private colleges and universities.<sup>3</sup> Among the nation's private institutions, 138 private colleges list tuition and fees at \$50,000 or more for the 2020-2021 academic year.<sup>3</sup>

For many students and their families, in-state public institutions offer a more affordable choice than private institutions. However, it's important to note that tuition only accounts for a portion of college costs. The added costs associated with room and board, course materials, parking, and transportation can nearly double the cost to attend many schools. For example, when adding these additional expenses to the price of tuition at the average four-year public institution, total annual costs more than double from \$10,560 for tuition and fees, to \$25,890.<sup>5</sup>

As a result, the cost of pursuing a four-year undergraduate or an advanced degree program, has led to more Americans than ever before graduating with significant student loan debt. In 2020, student loan debt in America topped \$1.55 trillion,<sup>6</sup> with 43% of college attendees incurring at least some education related debt.<sup>7</sup>

### AVERAGE ESTIMATED FULL-TIME UNDERGRADUATE BUDGETS

(Enrollment-Weighted) by Sector, 2020-21



Source: The College Board, Trends in College Pricing and Student Aid 2020, Figure CP-1.



## DOES HIGHER EDUCATION PAY OFF?

College graduates tend to earn a substantial wage premium in the labor market. According to the Federal Reserve Bank of New York, “In recent years, the average college graduate with a bachelor’s degree earned about \$78,000, compared to \$45,000 for the average worker with only a high school diploma.” This means a typical college graduate earns a premium of well over \$30,000, or nearly 75%.<sup>8</sup>

In a separate study, the Georgetown University Center on Education and the Workforce reported the following average lifetime career earnings by education level, indicating that those who obtain a bachelor’s degree nearly double the career earnings of those with a high diploma alone:

<b>High school graduate</b>	<b>\$1.4 million</b>
<b>Associate’s degree</b>	<b>\$1.8 million</b>
<b>Bachelor’s degree</b>	<b>\$2.5 million</b>
<b>Master’s degree</b>	<b>\$2.9 million</b>
<b>PhD</b>	<b>\$3.5 million</b>
<b>Professional degree</b>	<b>\$4 million.<sup>9</sup></b>

## MANAGING COMPETING FINANCIAL PRIORITIES

While numerous studies report that four-year and advanced degrees can pay-off over time in the form of higher salary and wages and increased career opportunities, it can be difficult for students and their families to find ways to foot the bill. This can be especially challenging for those juggling competing financial priorities, such as saving for retirement while managing mortgage and consumer debt, and rising healthcare expenses.

Fortunately, there are a number of ways families can save for college and other education costs that also provide important tax advantages. These include 529 education savings plans, prepaid tuition plans, Coverdell Education Savings Accounts (ESAs), UGMA and UTMA custodial accounts, and U.S. savings bonds, among others. While each savings vehicle has different tax implications, limitations, risk factors, investment options, and cost considerations, 529 education savings plans are the only education savings tool that also offers state tax benefits.

## WHAT IS A 529 EDUCATION SAVINGS PLAN?

Established in 1996 under Section 529 of the Internal Revenue Code, 529 plans are versatile savings accounts that offer federal and, often, state tax benefits, while minimizing the impact on financial aid. Designed to help families set aside funds for future education costs, 529 plans are offered by most states and are typically open to all savers, not just their own state residents.

College Savings Comparison <sup>10</sup>	529 Education Savings Plan	529 Prepaid Tuition Plan	Coverdell ESA	UGMA/UTMA Custodial Accounts	U.S. Savings Bonds
No age limits	✓				
No income restrictions	✓	✓		✓	✓
High contribution amounts permitted	✓			✓	✓
Broad range of investment choices	✓		✓	✓	
Federal tax advantages	✓	✓	✓	✓	✓
Potential state tax advantages*	✓	Varies by state			
Account owner maintains control	✓	✓			
Beneficiary may be changed at any time	✓				
Anyone can contribute on behalf of a beneficiary	✓				✓
Penalties for non-qualified withdrawals	✓	✓	✓		Interest earned is taxed as income

\*Varies by state.

## THE 529 ADVANTAGE

Whether you're saving for yourself, a child, grandchild, or another relative or friend, 529 education savings plans offer unique benefits that can help you pursue a number of important financial goals.<sup>11</sup>

### Flexibility

- Contributions can be made by anyone, for any beneficiary
- High maximum contribution amounts
- Low minimum investments
- No income restrictions
- Assets can be used for most education expenses, including tuition, room and board, books, computers, and supplies at most two- and four-year colleges, technical, vocational, and graduate schools
- Assets can be used to pay for up to \$10,000 a year in K-12 tuition for primary or secondary public, private, and religious schools
- Up to \$10,000 (lifetime limit) may be used to pay back student loans

### Tax Advantages

- Growth, earnings, and withdrawals are free from federal (and in most cases state) taxes, if used for qualified education expenses
- Contributions are considered gifts for tax purposes and subject to federal gift tax limitations

### Estate Planning

- 529 accounts allow grandparents, friends, and family to contribute the highest amount that can be contributed before incurring gift taxes
- They are one of the only assets that account owners can remove from their taxable estate while maintaining control over the assets
- Any contribution you make through a 529 savings plan will reduce the amount of your taxable estate by the amount of the 529 plan contributions

### Control

- The account owner maintains control of the account
- The account beneficiary and even the owner, may be changed at any time

*This information isn't intended to be a substitute for specific individualized tax advice. We suggest that you discuss your specific tax issues with a qualified tax advisor.*

## HOW DO 529 PLANS WORK?

There are two basic types of 529 plans — prepaid tuition plans and savings plans. A prepaid tuition plan enables a family to pay for future tuition now in current dollars and at current prices. A 529 savings plan, on the other hand, offers the ability to accumulate funds in a tax-advantaged manner for future tuition costs. Some state-sponsored plans offer incentives to in-state participants, such as state income-tax deductions or credits.<sup>12</sup>



### Who can open an account?

To open a 529 savings plan account, you must be a U.S. citizen or a legal resident, and you typically must be 18 years of age, unless a parent or guardian provides consent. A trust, estate, corporation, partnership, local government, and not-for-profit organization also may open a 529 savings plan account. All account owners must have a social security or a taxpayer identification number. Furthermore, the 529 savings plan may require additional documentation to open the 529 savings plan account. That documentation may vary by the type of account owner.<sup>13</sup>

### Who can contribute?

While there can only be one designated beneficiary for each 529 savings plan account, there is no limit to the number of 529 accounts you can open and contribute to for children, grandchildren, or other beneficiaries. You may also contribute to the 529 savings plan accounts established by others. In fact, a growing trend among new parents is to request friends and relatives make a 529 plan

contribution in lieu of baby gifts upon the birth of a child, or later, in lieu of birthday gifts. This can be a great way to jumpstart education savings, while children are still young, and take advantage of the power of tax-deferred compounding over time.

However, keep in mind that if you contribute to an account established by someone else, because you aren't the account owner, you'll lose the ability to control how your contribution is invested, whether the contribution is withdrawn from the 529 savings plan account, or whether the account owner changes the designated beneficiary for the 529 savings plan account. You'll also lose the ability to make a withdrawal from the 529 savings plan account if your financial circumstances change. In addition, you may not be able to receive beneficial state income tax treatment for the contribution—either because you don't live in the state where the 529 savings plan is issued or because such benefits are only offered to account owners.

### Contribution limits

One of the many benefits of saving for future education expenses with a 529 plan is that contributions are considered gifts for tax purposes. In 2021, gifts totaling up to \$15,000 per individual qualify for the annual gift tax exclusion (\$30,000 for a married couple filing jointly).

However, there is an exception that enables the account owner to “front-load” the plan by contributing up to five years of gift-tax-exempt funds into the 529 account in a single tax year. Since the current gift tax exemption is \$15,000, this would allow contributions up to \$75,000 per individual, or \$150,000 for a married couple filing jointly.<sup>14</sup>

### Eligible withdrawals

When it's time to withdraw savings to pay for eligible education expenses, several considerations must be taken into account. To qualify for federal tax-free withdrawals on earnings, savings contributed to a 529 plan must be used for qualified education expenses, as defined under Section 529 of the tax code.<sup>15</sup>



### Qualified education expenses

- Up to \$10,000 annually in tuition expenses for K-12 elementary or secondary public or private schools
- For higher education institutions, qualified expenses include tuition, mandatory fees, books, computers/Internet access, supplies, and equipment required for enrollment or attendance
- Additionally, certain room and board costs during any academic period for which the beneficiary is enrolled at least half-time, and certain expenses for special-needs students are also eligible
- Under the SECURE Act, a lifetime limit of \$10,000 from a 529 plan can be used without any penalties or tax consequences to repay a beneficiary's student loans. An additional \$10,000 can be used to repay student loans held by each of the beneficiary's siblings.<sup>16</sup>

### Eligible institutions

- Generally any college, university, vocational school, or other postsecondary educational institution eligible to participate in a student aid program administered by the U.S. Department of Education
- Elementary or secondary public, private, or religious schools
- Some international schools and overseas study programs also qualify
- Continuing education required to maintain a professional license may also be eligible, depending on the institution where you take the course

### What happens to funds that aren't used for qualified higher education expenses?

One of the most frequent questions parents and grandparents ask is, "What happens if my child receives a full scholarship, or chooses not to go to college?" One of the advantages of saving through 529 plans is that you never lose control of the assets. If a beneficiary chooses not to go to college, the account owner can take a non-qualified withdrawal (subject to taxes and penalties), change the beneficiary, or simply hold onto the account in the event the beneficiary decides to go to college at a later date. Since there are no age or time limits to use the funds, you could hold onto the account, allowing earnings to accrue for the benefit of a younger child, future grandchild, or other beneficiary.

However, keep in mind that the earnings portion of any withdrawal not used for qualified education expenses is subject to federal and state income taxes and may also be subject to a 10% federal tax penalty. Exceptions to this penalty include a withdrawal made because the beneficiary:<sup>17</sup>

- Dies or becomes disabled
- Receives a scholarship (to the extent that the withdrawal amount does not exceed the scholarship amount)
- Attends a U.S. military service academy (to the extent that the amount of the withdrawal does not exceed the costs of education attributable to such attendance)

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## CHOOSING A 529 PLAN

Deciding whether or not a 529 education savings plan, which offers a myriad of tax and estate planning benefits, can help you pursue your financial goals may be the easy part. Choosing the right 529 plan for your needs can be more difficult. That's because all 50 states and the District of Columbia offer plans. When choosing a 529 plan, you should always consider your home state plan first as your state may offer state tax or other benefits to residents.

### Get the help you need

Whether you're a parent planning ahead for a child's education expenses, or grandparent seeking to leave a legacy to loved ones, your financial professional can help you sort through the various plans, benefits, and investment options available to you, helping to ensure your decision aligns with your overall financial plan, timeline, and goals.

## HOW WE CAN HELP

A comprehensive approach to planning is essential for balancing multiple financial goals, from education and tax and retirement planning, to legacy and estate planning. Planning establishes a framework for pursuing all of your goals, including how you'll pay for college education costs and other expenses. It can also help you understand how the financial decisions you make now may support or detract from your ability to accomplish your long-term goals, while offering the flexibility to accommodate changes at every stage of your life. Think of your plan as a road map for dealing with uncertainty, managing change, and helping you overcome obstacles along the path to your goals.

Partnering with an experienced, independent financial professional who places your best interests first can help you not only work toward your goals, but make confident decisions about your wealth and your future by:

- Developing a written financial and retirement plan based on your goals and objectives
- Providing experienced guidance, insight, and advice
- Recommending opportunities to optimize your strategy and asset allocation
- Monitoring your progress against goals
- Helping you adjust your strategy over time

## QUESTIONS?

If you have questions about funding current or future education expenses, contact us to schedule time to talk about your education planning needs.



- <sup>1</sup> College Board: Average Rates of Growth of Published Charges by Decade <https://trends.collegeboard.org/college-pricing/figures-tables/average-rates-growth-published-charges-decade>
- <sup>2</sup> CNBC: College Board Report Suggests the Pandemic May Have Paused Rising College Costs <https://www.cnbc.com/2020/10/27/rising-college-costs-may-have-paused-due-to-pandemic-says-new-report.html>
- <sup>3,5</sup> College Board: Trends in College Pricing and Student Aid 2020 <https://research.collegeboard.org/pdf/trends-college-pricing-student-aid-2020.pdf>
- <sup>4</sup> U.S. News: 10 Most, Least Expensive Private Colleges <https://www.usnews.com/education/best-colleges/the-short-list-college/articles/10-most-least-expensive-private-colleges>
- <sup>6</sup> Federal Reserve Bank of New York: Household Debt and Credit, 2020: Q3 [https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/pdf/HHDC\\_2020Q3.pdf](https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/pdf/HHDC_2020Q3.pdf)
- <sup>7</sup> Board of Governors of the Federal Reserve <https://www.federalreserve.gov/publications/2020-economic-well-being-of-us-households-in-2019-student-loans-other-education-debt.htm>
- <sup>8</sup> Federal Reserve Bank of New York: Despite Rising Costs, College Is Still a Good Investment - *Jaison R. Abel and Richard Deitz*, June 5, 2019 <https://libertystreeteconomics.newyorkfed.org/2019/06/despite-rising-costs-college-is-still-a-good-investment.html>
- <sup>9</sup> Georgetown University Center on Education and the Workforce: *Career Pathways: Five Ways to Connect College and Careers* <https://1gyhoq479ufd3yna29x7ubjn-wpengine.netdna-ssl.com/wp-content/uploads/LEE-infographic-1.pdf>
- <sup>10</sup> FINRA.org, College Savings Comparison Chart <https://www.finra.org/investors/college-savings-comparison-chart> and IRS.gov: How 529 Plans Help Families Save for College and How the American Recovery and Reinvestment Act of 2009 Expanded 529 Plan Features - <https://www.irs.gov/newsroom/how-529-plans-help-families-save-for-college-and-how-the-american-recovery-and-reinvestment-act-of-2009-expanded-529-plan-features>
- <sup>11,12</sup> Source: IRS.gov: 529 Plans Questions and Answers <https://www.irs.gov/newsroom/529-plans-questions-and-answers>
- <sup>13</sup> The Municipal Securities Rulemaking Board (MSRB): Investor's Guide to 529 Savings Plans <http://www.msrb.org/msrb1/pdfs/MSRB-529-Investor-guide.pdf>
- <sup>14</sup> IRS.gov: Frequently Asked Questions on Gift Taxes <https://www.irs.gov/businesses/small-businesses-self-employed/frequently-asked-questions-on-gift-taxes>
- <sup>15</sup> IRS.gov: How 529 Plans Help Families Save for College and How the American Recovery and Reinvestment Act of 2009 Expanded 529 Plan Features <https://www.irs.gov/newsroom/how-529-plans-help-families-save-for-college-and-how-the-american-recovery-and-reinvestment-act-of-2009-expanded-529-plan-features>
- <sup>16</sup> Mefa.org: The SECURE Act Expands Use of 529 Plans <https://www.mefa.org/blog/secure-act>
- <sup>17</sup> The Balance.com: Understanding 529 Withdrawal Rules <https://www.thebalance.com/understanding-529-withdrawal-rules-4153124>

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Asset allocation does not ensure a profit or protect against a loss.

Prior to investing in a 529 Plan, investors should consider whether the investor's or designated beneficiary's home state offers any state tax or other state benefits, such as financial aid, scholarship funds, and protection from creditors that are only available for investments in such state's qualified tuition program. Withdrawals used for qualified expenses are federally tax free. Tax treatment at the state level may vary. Please consult with your tax advisor before investing.

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