

529 Savings Plan

529 plans are intended to provide a tax advantaged way for families to save for the costs of attending college. They are established and maintained by a State or a State agency. Earnings from contributions to a 529 grow tax free. Additionally, withdrawals from a 529 are tax free if they are used to pay for qualified higher education expenses, such as tuition and fees.

There are two basic types of 529 plans. The first is a *prepaid tuition* plan. In this case, a person purchases tuition credits or certificates for a beneficiary. These credits are used to pay for the beneficiary's tuition and fees once they start attending college. Some State 529 plans allow you to purchase enough credits to pay for 6 years of college at their most expensive university. In essence, you have the opportunity to freeze a significant portion of college costs. Over the past decade, tuition and fees have increased by about 6% per year. So, freezing tuition and fees can turn out to be a very good strategy. And, if your beneficiary does not use all of the credits, you can assign another beneficiary to the plan.

The second type of plan looks more like an investment plan. Your contributions to the plan are professionally managed. Usually, the plan manager offers many different investment portfolios types. For example, there are *age based* portfolios that adjust the investment risk based off of the number of years until the funds are needed. There are also more conventional portfolios such as high growth, indexed funds, bond funds, etc.

If you choose the second plan type, you may lose money. Management fees are not inconsequential and many of the portfolios have had a negative return over the past few years.

Most States allow non-residents to participate in their plans. However, if you participate in an out of state prepaid tuition plan, you may only be able to use the tuition credits in the state from which it was purchased.

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