



A Crash Course on How To Use a 529 Plan

A 529 is a tax-advantaged savings plan that gives you incentives to save money to pay for college or other higher education expenses. Pursuing your savings goal may mean the difference between a dorm with central air conditioning or experiencing sweltering summers. Here are some points to keep in mind when navigating your 529 plan.

1. Types of 529 Plans

There are two types of 529 plans, which are college savings plans and prepaid tuition plans.

🎓 College Savings Plans

These let you save funds in an investment account that has the potential to grow tax-free until you use them for most qualified education expenses incurred when attending a college or university that has accreditation.

🎓 Prepaid Tuition Plans

These let you lock in tuition at today's rates at in-state public universities. Some private and out-of-state colleges also offer guaranteed admission.

2. 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.

3. 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.

4. Investment Options

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

5. Qualified Expenses

Qualified expenses consist of tuition and fees, course materials (including books, supplies, and equipment), and the expenses of transporting the student to and from the institution. Room and board are qualified expenses if the beneficiary is enrolled at least half-time.

Additionally, 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.

6. Changing Beneficiaries

If you have other qualifying family members in mind for the 529 plan, you may make a change to the plan's beneficiary at any time without penalty. Alternatively, if you want to keep the account open for a future child, you are allowed to change the beneficiary to yourself.

As you know, using any saving vehicle is only valuable as long as you understand how it works. Take the time to read the 529 plan statement 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.

Important Disclosures:

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. All information is believed to be from reliable sources; however, LPL Financial makes no representation as to its completeness or accuracy.

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Footnotes

¹ Gift Tax, <https://smartasset.com/estate-planning/gift-tax-explained-2021-exemption-and-rates>