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# College Savings Plans To Combat Rising Education Expenses

*The costs of a college education continue to rise every year*

**By Neal P. Richard**

When adjusted for inflation, average tuition costs at both public and private four-year colleges have nearly tripled since 1971. When room and board are added to the mix, the annual average cost for a four-year private college is a whopping $42,419 - a daunting number for many families who have higher education aspirations. Like any family financial goal worth its while, funding a college education requires balance, careful planning, and smart investment. An investment in a qualified 529 college savings plan should be something to consider when mapping out your education needs.

**529 Plans can help with college savings.**

Like 401(k) plans for retirement, 529 Plans were developed by the federal government to encourage saving for the cost of sending your children (or anyone else, for that matter) to college. These 529 Plans offer a range of financial advantages, including:

**- Tax-free growth.**
You don't have to pay any income or capital gains taxes on money earned by the plan provided it's used to pay for qualified college expenses.

- **Transferability.**

If the child or loved one you initially designate as the beneficiary of the plan chooses not to attend college or does not need all the funds, you may transfer the Plan balance to a different beneficiary.

- **Flexible spending options.**
529 Plan funds can be used at any accredited college in the United States – and for necessary costs that include tuition, room & board, books, and computers.

- **Multiple contributors.**

Anyone – including friends, relatives, even employers – may contribute to the plan.

- **Tax benefits.**

Certain states, including Maine, allow you to deduct some of your contributions to 529 plans against your state tax burden. It's important to note that deduction limits and benefits apply and vary by state.

**Are there limits on contributions?**

Indeed, there are: you and your spouse may contribute a combined $30,000 annually on each beneficiary's plan without needing to pay federal gift taxes. Likewise, you and your spouse may also make a combined five-year carry-forward contribution of $150,000 at one time and deduct as allowed for the five years after that.

If you're contributing as an individual, the limits are $15,000 per year or $75,000 for a five-year carry-forward contribution in 2020.

### What to look for in a 529 Plan.

Given that there are many different 529 Plans and options to choose from, it's important to do your research – and pick the plan that best fits your financial goals. Here are just a few of the variables you'll want to consider before picking your plan:

**- When will your beneficiary attend college?**

Ideally, the plan should be selected for its potential to yield the highest return when it's needed.

**- Does it have strong underlying investment options?**

Some plans only allow you to invest in a limited portfolio. However, you may realize greater value by putting your money in a plan that has a wide array of funds and fund managers. It's also important to consider the service options provided by each plan – before making an investment.

**Are you or your family a target for litigation?**

If so, choose a 529 Plan that protects your investment from lawsuits or settlements. Plan rules allow investors to participate in 529 plans in any state they choose – and financial advisors sometimes recommend Alaska-based plans due to the litigation protections they provide.

**Does your 529 Plan offer matching contributions?**

There are more benefits to these plans than meets the eye, so perform your research and try to take advantage of these savings incentives.

### Important 529 Plan Considerations

Like any investment, 529 Plans carry a risk – and are subject to regulations that include plenty of fine print. By keeping a few key considerations in mind, you'll go a long way toward avoiding unnecessary penalties and complications.

The first of those considerations is a reminder not to exceed contribution limits. If, for example, you and your spouse exceed the contribution limit of $150,000 over five years, you'll be subject to federal gift taxation. It depends on the specific state, but there are caps on 529 Plan investments per beneficiary, and penalties may apply if you exceed that ceiling.

The next point to remember is that 529 Plan funds must be spent on qualified college expenses. Using these funds to pay for tuition and room & board are your safest bets to avoid any IRS scrutiny.

While you are allowed to spend the funds on other associated costs such as books, computers, and off-campus housing, it's critical that you or your child obtain and keep receipts for all those expenses.

If you do use the money to pay for non-qualified expenses, you'll be subject to tax penalties. Not only will you have to pay federal taxes on all the fund's earnings when you withdraw your money for these non-qualified expenses, but you will also be subject to an additional 10% penalty. Because of this, if there is a remaining balance in the 529 plan after your child has completed college or if they decide not to attend college altogether, you should consider switching the beneficiary to another family member or loved one, or even to yourself if you decide to continue your education.

However, these risks are far outweighed by the potential rewards of 529 Plan participation.

**As with any investment, the priorities are the same:**

- Know your objectives
- Stay true to a long-term investment strategy
- Start investing early – and don't stop
- Watch the value of your 529 Plan grow

While there are some risks associated with investing in a 529 Plan for your qualified college education expenses, these funds remain the most attractive college savings option for many families. The key to success with investing for your child's education is to align your investment strategy with your long-term financial goals and to begin your contributions early enough to see the value of your plan grow.



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