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Ric Edelman's Inside Personal Finance

Are You Ignoring the Best Way to Save for College?

If you're saving money to pay for future college costs, the best place to put that money is in a Section 529. And yet, a survey by the [College Savings Foundation](#) found that 48% of parents – almost half of all parents in this country – don't know what a 529 plan is or have never even heard of one.

Six percent of those surveyed said that while they've heard of 529 plans, they think the plans are "too complicated." Another 7% said (incorrectly) that other savings vehicles have better tax savings.

[Section 529 plans](#) (named for the section of the tax code that created them) offer you something you can't get anywhere else: The ability to enjoy unlimited profits completely free of all federal and state taxes.

It's true: You can set aside as little as \$25, or as much as hundreds of thousands of dollars. Once the money is in the account, it grows tax-deferred, meaning you don't pay annual taxes on the profits. And when you withdraw the money for college, the withdrawals are 100% tax-free.

There is no other vehicle that allows you to invest virtually unlimited amounts of money into investments that earn market-based returns where the profits are completely tax-free.

And it gets better. You can use the money to pay for an education at any college or university in the country, public or private. In fact, the student can attend college at any accredited institution in the world.

(There's no requirement that your child attend an in-state school.) And, you can use the money for any college expense – not just tuition and fees, but also room and board, computers and books. Virtually any cost except travel or purchase of housing is eligible.

Also, it's no problem if your child ends up not needing the money (thanks to a scholarship, or if he or she doesn't go to college). Simply transfer the money to another child in the family, including your child's cousins. You can even use the money yourself, transfer it to your parents or leave the money untouched for use by your child's future children – your as-yet-unborn grandchildren! (Yes, you can actually enjoy decades of tax-free growth down the generations!)

Any child can have an unlimited number of 529 accounts. That means you can establish an account, and so can both sets of grandparents. Or they can contribute to the account you establish, if they prefer. And in many states, you get a state tax deduction when contributing to a 529 plan, further sweetening the benefits. (The tax deduction goes to the person who established the account. Thus, if a grandparent contributes to an account set up by the parent, the parent gets the tax deduction, not the grandparent. If the grandparent wants the tax break, he or she should create his or her own 529

account.)

If you have a child headed for college, open a Section 529 plan now. For help, give us a call.

Ric Edelman is chairman and CEO of Edelman Financial Services, the host of "[The Ric Edelman Show](#)," and the best-selling author of [seven books on personal finance](#). His firm manages billions of dollars for consumers nationwide. Visit [RicEdelman.com](#) to learn more.

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