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**Are you saving for your kids' college expenses? Consider this option**

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529 plans help parents save for college tuition expenses for their kids, but with college costs on the rise, the account may not be enough. 529 Plans came into the spotlight recently after President Obama proposed taxing the accounts.

It might take a village to raise children, but it takes several pots of money to put them through college — and one of those pots isn't looking as shiny as before.

The latest report on college funding by Sallie Mae, the education-financing company, shows parents and students are relying less on their own income and savings, while depending more on scholarships and grants. Borrowing, the third major pot, has stayed about the same.

This savings slowdown isn't too surprising given that Americans also are having trouble saving for retirement and other goals. But it's a bit baffling in that a major type of savings account for college, known as Section-529 plans, continues to improve, with somewhat better tax breaks and investment options.

"They're an easy, tax-efficient way to save for the second- or third-most important financial goal that most people have," said Rich Polimeni, director of an education savings program at Bank of America Merrill Lynch.

Tax benefits, flexibility and control — 529 plans feature all that.

While tax-sheltered investment growth is their big lure, the accounts also enable parents or other adults to remain in charge, without fear that a youngster might squander the money prior to college.

In addition, the accounts are easy to set up, alter and transfer when necessary.

Nevertheless, use of 529 plans has "plateaued," said Sallie Mae in its latest "How America Pays for College" report, prepared last year. Some 17 percent of families used the accounts — named after a section of the Internal Revenue Code — to foot some college costs during the 2012-2013 academic year, declining to 13 percent last year.

Assets in 529 plans are still growing, helped by stock-market gains, but contribution activity has leveled off, reports the College Savings Plan Network, which counted $275 billion in 529 assets as of 2016.

Many families just don't have money to spare, but misconceptions and misunderstanding might explain part of the slowdown.

Here are eight things you might not realize about 529 plans:

1. You don't need to meet any income guidelines

Unlike Individual Retirement Accounts, you can open a 529 account even if you're a millionaire because no income caps apply. There's no curtailment of the tax benefits, either. The main one is that investment earnings potentially grow free of federal taxes.

You can't deduct contributions to a 529 plan on your federal tax return, but more than 30 states including Arizona (az529.gov) allow full or partial deductions, according to savingforcollege.com. Most programs feature low investment minimums, often around $25.

If you use the money to meet college costs — or even those for technical or vocational schools — proceeds can be withdrawn tax-free. If instead you pull out money for non-education purposes, you would owe taxes on any earnings and a 10-percent tax penalty.

Thus, college-focused 529 accounts somewhat resemble Roth IRAs, where there's no federal deduction but where withdrawals usually come out tax free.

2. You don't need to use the accounts for college

You read that right: These are college savings plans, but there's no requirement to use the money for college. Nevertheless, it's*best* to use proceeds for higher education, as distributions would then come out tax and penalty free. Permissible expenses, beyond just tuition, include housing, books, computers and much more.

As noted, you also can use the money to finance training in technical or vocational schools. And thanks to last year's tax-reform legislation, proceeds can be taken out, tax free, and used to pay for up to $10,000 annually in tuition for kindergarten through 12th grade.

3. You don't need to give the money to the intended recipient

Suppose your kid decides not to attend college. You can transfer the account balance to another beneficiary, such as a younger sibling. You also could transfer it to someone unrelated to your child or use it for your own higher-education expenses, should you return to school.

"The donor or owner keeps control for the life of the account," said Polimeni, who chaired a recent conference in Phoenix of the College Savings Foundation. "There's tremendous control and flexibility."

4. You don't need to give it away

It's even possible for an investor to pull out proceeds for personal use. Owners "can withdraw funds at any time for any reason," noted savingforcollege.com. This can be handy if the donor runs into serious personal financial problems or if the intended child doesn't attend college or wins a full-ride scholarship.

However, donors who transfer 529 assets for their own non-college uses would face taxes on earnings and that 10-percent penalty.

5. You don't need to be a parent to use these accounts

Grandparents also can set up and fund 529 accounts, as can uncles, aunts, other family members and even friends.

"You don't even need to be related to the student," said Polimeni.

The person who sets up the account retains considerable control over it, including the decision on whom to name as beneficiary and where to invest.

Given the low minimum contributions, nearly anyone can help save for someone else's higher education.

6. You can use another state's plan

The accounts are named after a section of the Internal Revenue Code and feature earnings that are tax-free on federal returns. Yet the programs are run by the various states in partnership with investment companies.

Investors may contribute to their own state's plan or utilize a program sponsored by another state.

"We suggest looking at your own state's plan first," Polimeni said.

Some states allow a deduction for residents who use these plans, but other states either don't offer such incentives or don't require residents to use them in-state. Proceeds then can be used to pay for college anywhere in the country.

(In a different and smaller type of 529 program, the "prepaid plans," investors purchase tuition for use at specific colleges.)

7. You don't need to fret over investment decisions

Nearly all 529 plans use mutual funds and exchange-traded funds, or ETFs. This makes sense, as these vehicles are broadly diversified and typically managed at low cost.

Funds with stock-market exposure usually are the way to go, especially for young kids whose accounts might grow for 15 or 20 years. Many age-linked funds start out aggressive when a child is young (with high stock-market exposure), then grow more conservative over time.

Incidentally, the accounts don't need to be liquidated as soon as the beneficiary turns 18. Funds may be applied for graduate school, for example.

## 8. You might not disqualify your child from financial aid

For your children to receive financial aid, it's best not to have a lot of assets held in their names. When parents set up 529 plans, the assets are counted less heavily for financial-aid eligibility than if the same assets were held by the child in, say, a custodial account.

Suppose a 529 account held by the parents is worth $100,000 by the time a child applies for college. In this case, around 5.6 percent of assets, roughly $5,600, would be counted against aid eligibility, said Polimeni.

But if the same $100,000 was held in a non-529 custodial account, 20 percent or $20,000 would get counted.

Savingforcollege.com offers a handy calculator for running financial-aid scenarios.

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