

STIFEL

INVESTING

529 Plan

An Innovative and Powerful Way to Save for Higher Education Expenses

Planning for a child's education may be one of the most important financial decisions of your life. Establishing an investment program today can secure your child's financial needs for their future. A 529 Plan may be the financial tool that can make the most of your savings for educational purposes.

Planning for the Future

A college student is faced with an extraordinary amount of college expenses. Tuition, room and board, books, fees, supplies, and equipment are just some of the expenses they will encounter for the duration of their college career. From 2012 to 2022, according to The College Board, college costs have risen an average of 2.9% for public colleges and 3.2% for private colleges (including the addition of inflation based on the average CPI-U of 2.6%). For the 2022-2023 academic year, as reported by The College Board, the average tuition and fees charged by public four-year in-state colleges and universities was up 4.4% from the 2021-2022 academic year, while average private four-year college tuition and fees rose by 6.1%. As the cost of college tuition and fees continues to rise at a steady pace, families must begin to plan earlier than ever for their child's education.

Why a 529 Plan?

In the past, many concerned investors have used tools such as Coverdell Education Savings Accounts (previously known as Education IRAs) and custodial accounts to save for their children's or grandchildren's education. While these methods are certainly better than not investing at all, they do offer limitations. For example, Coverdell Education Savings Accounts have an annual contribution limit of \$2,000 and there are income limits that restrict who can invest in the plan. Custodial accounts are a common way to save for education; however, they do have some disadvantages. For instance, if the child doesn't go to college, the contributor can't remove the funds and they belong to the child when the child reaches the age of termination for the custodianship, usually age 21. Also, custodial accounts have a less favorable treatment for tax and financial aid purposes than 529 Plans.

A 529 Plan can be a powerful financial solution when preparing for future educational expenses. With this unique plan, investors can experience tax advantages and estate planning benefits currently unavailable with other education planning strategies.

With a 529 Plan, assets grow tax-deferred, similar to a 401(k) plan or a traditional IRA. In addition, under current tax law, qualified distributions are federal income tax-free. Nonqualified withdrawals are taxable as ordinary income to the extent

of earnings and may also be subject to a 10% federal income tax penalty. State tax treatment may differ. Investors should discuss their particular tax situation with a tax professional.

Contributions to a 529 Plan grow tax-free so long as the funds are ultimately distributed to pay for the plan beneficiary's qualified education expenses. Prior to 2018, this tax incentive was only available if the plan was used to fund the beneficiary's post-secondary education. Under the Tax Cuts and Jobs Act of 2017, 529 Plans can now also be used to cover up to \$10,000 of a child's K-12 tuition. In addition, the Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019 expanded 529 Plan benefits to include student loan repayment as a qualified education expense. Under the SECURE Act, 529 Plan account owners can make tax-free withdrawals of up to a lifetime limit of \$10,000 to repay the beneficiary's student loan debt, as well as up to \$10,000 for each of the beneficiary's siblings. Student loan interest paid with tax-free 529 Plan withdrawals is not eligible for the student loan interest deduction. It is important to note that some states have not updated their laws to include K-12 tuition and student loan repayment as eligible 529 Plan expenses. To avoid potentially significant negative tax consequences, be sure to discuss your state's laws with your qualified tax professional prior to using your 529 Plan for these purposes.



In 2023, Barbara contributed \$85,000 to each of her three grandchildren's 529 Plan accounts, which earn 8%.

\$85,000 for Evan, age 11

\$85,000 for Mia, age 5

\$85,000 for Isaac, age 2

Evan's account value 7 years later \$145,675

Mia's account value 13 years later \$231,168

Isaac's account value 16 years later \$291,205



Current gross estate value: \$13,175,000
(Less) 529 Plan Contributions \$255,000

If Barbara lives until 2027, assuming no growth of her assets, new gross estate value: \$12,920,000

Barbara reduces her federal estate tax bill by approximately \$102,000 (to \$0)

Based on 2023 estate and gift tax laws and thresholds. Future laws and thresholds are subject to change.

The above is a hypothetical illustration only and is not intended to reflect the performance of any particular investment.

Individuals of all income levels can open a 529 Plan, and multiple plans may be opened for different beneficiaries. For most 529 Plans, there are no age or time limit restrictions for the participant or the beneficiary. This allows significant flexibility in choosing the owner, beneficiary, and timing of contributions. A 529 Plan allows an investor to contribute a lump sum of up to five times the annual gift exclusion (\$17,000) in a single year, with no gift tax due on the transfer. This amount (up to \$85,000, or \$170,000 for married couples filing jointly) may be contributed to as many 529 Plans as

you desire, provided there is a separate beneficiary for each account and no other gifts are made to that beneficiary, either directly or through a 529 Plan, for five years. Contributions are considered a completed gift and are removed from the donor's estate, provided the donor lives beyond the number of years for which the gifts were pre-funded.

With a 529 Plan, the account owner retains complete control of the account, including control of distributions, the ability to cash out the plan, access funds, or change the beneficiary. An added benefit to a 529 Plan is the increased maximum

contribution limit. This can be very beneficial to the student wishing to attend a more expensive school or who plans to continue their education with graduate or doctoral studies.

Take Action Now

Providing for the education of someone you care for, while preserving your assets, is an attainable goal. Call your Financial Advisor to discuss the 529 Plan and the importance of planning for college expenses today.

Investors should consider carefully the investment objectives, risks, charges, and expenses associated with a 529 Plan before investing. The official program offering statement, which includes information on municipal fund securities, is available from your Financial Advisor and should be read carefully before investing. The value of a 529 account may fluctuate, and there is no guarantee that any investment portfolio will achieve the stated goal. Your investment may be worth more or less than its original value.