Funding College with a 529 College Savings Plan

Seventy-three percent of parents identify paying for college as their top financial worry.[1] Yet, while 9 in 10 parents expect their child will attend college, less than half are saving for higher education.[2] As college tuition continues to rise faster than inflation,[3] here's how you can help clients identify and reach their college funding goals:

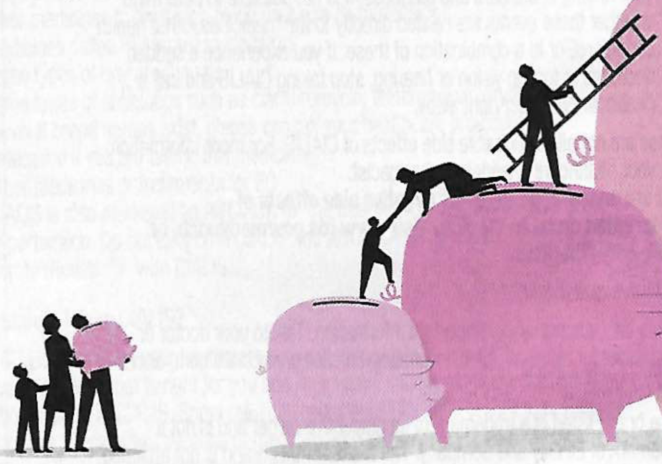
START THE COLLEGE SAVINGS CONVERSATION EARLY:

The sooner parents begin saving, the better. Even families that are more than a decade away from SATs and college tours can start setting money aside for college. Explain that the money saved while children are young can be more valuable than money saved once they're teenagers, thanks to compound interest. Early savers also can afford to invest a larger portion of their college savings in equities where there may be greater growth potential.

Start small. It takes just $50 to open a 529 account, and the tax benefits[4] and high contribution limits[5] can make a 529 plan an ideal investment vehicle for college savings, especially as they've grown in recent years to offer more investment options and lower fees.

Automate 529 savings. Encourage families to fund their 529 account automatically each month. Also, have clients inquire at work about eligibility for increasingly common employer payroll deductions for 529 contributions.

Keep financial aid top of mind. Be sure 529 savings are in the parents' names (with the child named as a beneficiary), rather than in the name of the future student. The federal Expected Family Contribution (EFC) formula assesses parents' assets at a far lower rate than children's assets (5.64% vs. 20%[6]). Therefore, it may make sense to transfer savings already in a child's name into a 529 account with the child listed as the beneficiary, as long as those funds are intended to fund college.



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ADJUST AS NEEDED DURING THE COLLEGE YEARS:

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Make the FAFSA a priority. Encourage even wealthy families who will not qualify for need-based aid to fill out the Free Application for Federal Student Aid (FAFSA), since it's required for anyone receiving federal loans and often used by colleges to determine merit aid eligibility. Packages may be distributed on a first-come, first-served basis, so ask parents to pay attention to each school's deadlines.

Consider the long-term impact of loans. Families that can't cover the cost of college with savings, aid, and federal loans might consider using private loans to close the gap. Since these loans often require a parent co-signer, it's important to make sure your clients understand how co-signing will affect their credit and future financial plans if their children have trouble making payments.

Prepare for nonqualified expenses. Be sure your clients know what they can and can't use 529 funds to cover. Among other expenses, tuition, room and board, textbooks, and computers are qualified expenses, but travel costs, insurance, and social activities are not. Help develop a budget for nonqualified expenses—and discuss who will pay for them.

Have a backup plan for unused 529 funds. Lucky families that end up with a surplus in their 529 accounts can change the named beneficiary and use the funds to pay for a sibling's college expenses or continuing education for themselves.[7] Also, they can keep the account in the initial beneficiary's name in case the student later opts for graduate school. Families who withdraw money for nonqualified expenses will owe federal income tax on earnings as well as a 10% penalty.

Download our College Savings Conversation guide at ssga.upromise529.com/GUIDE for more tips on discussing college funding with your clients.

1 Jones, Jeffrey. "U.S. Parents' College Funding Worries Are Top Money Concern." Gallup. April 20, 2015. http://www.gallup.com/poll/182537/parents-college-funding-worries-top-money-concern.aspx.
2 Sallie Mae. "How America Saves for College 2015." https://www.salliemae.com/plan-for-college/how-america-saves-for-college.
3 Clark, Kim. "College Board Says Tuition Rose Faster Than Inflation Again This Year." Nov. 4, 2015. http://time.com/money/4098683/college-board-tuition-cost-rose-inflation-2015.
4 Accounts compound tax-free, qualified distributions for higher education are tax-free, and many states offer additional tax breaks.
5 Contribution limits are as high as $400,000 per beneficiary, and each state lists its own limits.
6 Saving for College, LLC. "Financial Aid Basics." Accessed on January 15, 2016. http://www.savingforcollege.com/financial_aid_basics/financial_aid_and_your_savings.php.
7 Rules regarding gifts and generation-skipping transfer tax may apply in the case of a change of beneficiary. You should consult your tax advisor when considering a change of beneficiary.

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