DOW THEORY FORECASTS®

# Saving for college? Consider a 529

With a year of private-college tuition costing an average of $34,740 and student-loan debt topping $1.4 trillion, it's encouraging to see more parents saving for college. According to Sallie Mae's *How America Saves For College 2016* report, 57% of parents are saving, up from 48% in 2015 and approaching the 60% reported in 2010.

One college-savings vehicle that offers impressive tax advantages but seems underutilized is the 529 plan. Sallie Mae estimates that 17% of all college-savings dollars are already parked in those plans, yet about three times as much is still sitting in taxable bank or brokerage accounts. Education IRAs offer similar tax advantages, though people who exceed federal income limits cannot invest in education IRAs, and the annual contribution limit of $2,000 keeps balances fairly small.

However, 529 plans have no income limits, and most feature lifetime contribution limits of $300,000 or more.

As happens with Roth IRAs, money goes into the 529 plan after taxes. Those funds grow tax-free, and any money withdrawn for education related purposes is not taxed.

Investors can use 529 money for more than tuition. Allowable expenses include fees, books, computer equipment, and some room and board costs. These plans come in two flavors. Prepaid plans allow you to pay in advance for an in-state public education at a preset price. Savings plans provide more educational options, but do not guarantee costs.

We at the *Forecasts* prefer the savings plans, in part because of their flexibility regarding college choices and in part because we prefer to choose our own investments. At least, as much as the plans allow.

Most 529 plans are administered by the type of investment firms that operate 401k plans, and every plan features its own mix of investment options, as well as a wide range of fees, tax credits, matching funds, etc. Subscribers interested in 529 plans can compare those choices at such websites as www.savingforcollege.com, www.aarpcollegesavings.com, or plans.collegesavings.org.

When selecting a 529 plan, don't just consider past performance. Favor plans with low fees (including the fees charged by any underlying mutual funds), state tax breaks, and a wide selection of investment options.

## Seven reasons to go with a 529

Not convinced about the benefits of the 529 plan? Here are seven reasons to consider one:

- **Geographic flexibility.** Because most 529 plans are associated with a particular state, many investors assume the beneficiary must either live or attend college in that state. Don't make that mistake. Regardless of where you live, you can use a 529 to fund college in any state.

- **Educational flexibility.** Students can use these plans to pay for post secondary education at four-year universities, community colleges, and trade schools.

- **Control.** The investor owns the 529 plan, not the student, which means you decide when to withdraw money and how to allocate it.

- **Variety.** Investment options include age-based approaches, which adjust asset allocation based on how many years a student has before starting college, and fixed-allocation portfolios that target a range of investment strategies based on the level of risk an investor wishes to assume. Most of the investment options are built from traditional mutual funds.

- **Older students.** Unlike an education IRA, investors can keep contributing to a 529 Plan after the beneficiary turns 18. Plan owners can keep money in there indefinitely and change the beneficiary if needed, potentially using it to fund the education of another child or grandchild.

- **Older funders.** While assets in a 529 plan owned by a parent or student count as parental assets in the financial-aid calculations, plans controlled by grandparents do not.

- **State tax breaks.** More than 30 states offer some sort of tax deduction or credit for contributions to 529 plans.