



Saving for College: 529 Plan Basics

With college costs continuing to rise, it pays to start saving early! One of the most popular long-term college savings strategies is a 529 plan.

529 plans get their name from the section of the Internal Revenue Code that governs them – Section 529. These plans are tax-advantaged – meaning you as the taxpayer will get a break on your taxes for having taken the steps necessary to pay for future higher education expenses.

There are two types of 529 plans: “**pre-paid tuition plans**” and “**college savings plans**.” All fifty states and the District of Columbia participate in at least one of these types of 529 plans.

Pre-Paid Tuition Plans allow you to pay in advance (pre-pay) for future college tuition at any of your state’s eligible colleges or universities (or comparable payment to private or out-of-state institutions) at today’s lower tuition price. Individuals may purchase “units” or “credits” through a one-time lump sum purchase or monthly installment payments.

College Savings Plans allow you to save money on behalf of a designated beneficiary (yourself, a relative, or other individual you may designate as the recipient). Any savings, plus any earnings that grow on top of what you save, will be free from Federal income tax and, when used to pay for “qualified higher education expenses” (such as mandatory fees, books, supplies, equipment required for enrollment, and, in some cases, room and board), may be withdrawn federal income tax-free.

Which Plan is best?

According to the [College Savings Plans Network](#), the answer to this question depends on your college plans and also your investment needs and goals. While Pre-Paid Tuition Plans offer the opportunity to assure future tuition payments, College Savings Plans can be used for tuition and other qualified expenses.

Since the terms and conditions associated with 529 plans vary by state, **be sure to do your homework before deciding on a plan that best fits you.**

Things to Consider Before Selecting Your Plan

The U.S. Securities and Exchange Commission (SEC) – the agency whose mission it is to protect you as a consumer – suggests that you consider the following questions before investing in a 529 plan.

<i>Questions to Consider When Selecting a Plan</i>
Is the plan available directly from the state or plan sponsor?
What fees are charged by the plan? How much of your investment will go to compensating a broker? Under what circumstances does the plan waive or reduce certain fees?
What are the plan's withdrawal restrictions? What types of college expenses are covered by the plan? Which colleges and universities participate in the plan?
What types of investment options are offered by the plan? How long are contributions held before being invested?
Does the plan offer special benefits for state residents? Would you be better off investing in your state's plan or another plan? Does your state's plan offer tax advantages or other benefits for investment in the plan it sponsors? If your state's plan charges higher fees than another state's plan, do the tax advantages or other benefits offered by your state outweigh the benefit of investing in another state's less expensive plan?
What limitations apply to the plan? When can an account holder change investment options, switch beneficiaries, or transfer ownership of the account to another account holder?
Who is the program manager? When does the program manager's current management contract expire? How has the plan performed in the past?

Other Tax-Favored College Savings Options

Investing in a 529 plan is only one of several ways to save for college. Other tax-advantaged savings tools include Coverdell education savings accounts, Uniform Gifts to Minors Act ("UGMA") accounts, Uniform Transfers to Minors Act ("UTMA") accounts, tax-exempt municipal securities, and savings bonds. Saving for college in a taxable account is another option as well.

Since each college saving option has its advantages and disadvantages, and may even have a different impact on your eligibility for financial aid, it is important that you evaluate each option carefully. If you need help determining which options work best for your circumstances, talk with your financial professional or tax advisor.

When Saving Is Not An Option...

If you or your child are ready for college but haven't saved enough to cover college costs, know that there are people willing to help you find the money – scholarships, grants and loans – you need to pay for college. Keep in mind that you should **never have to pay** for help finding the money you need to go to college. People are willing to help **for free**.

Contact your tax professional or financial planner or your state's designated nonprofit student loan provider for additional information. A listing of select nonprofit student loan providers is available online at www.efc.org.