

## 529 College Savings Plan

It is no doubt that college tuition is rising. Students are graduating college with mountains of student loan debt. Parents are finding themselves taking out additional loans to assist their children in the cost of tuition and other college expenses. Fortunately, there are some savings options available so that parents can prepare financially for the cost of education for their children.

One popular plan on the rise is called the 529 College Savings Plan. Named after section 529 of the IRS code it is derived from, this plan allows you to put money aside for education related expenses in the future. Every state has some type of 529 plan, however each state administers its plan with different terms and conditions.

### TYPES OF 529 PLANS

There are two general types of plans: Savings plan and Prepaid plan.

- Prepaid 529 plans allow you to pay for tuition at the current tuition rates (at participating colleges and universities). Private colleges operate under an Independent plan. When your child is ready to attend college, you can cash in your units/credits for the tuition at the college. These types of plans are usually backed by the participating state and do have residency requirements.

- A 529 Savings Plan is a little different as it is more of an investment type plan. You can put money in the plan and it is invested in different mutual funds. Your balance can go up and down as the stock market rises and falls. You select your investment funds and amounts. This plan operates similar to an IRA or 401K fund.

### PROS AND CONS OF BOTH PLANS

Both types of plans have advantages and disadvantages.

- Prepaid Plan: With the prepaid plan you are locking in the tuition rate by purchasing units/credits at the current rate. You avoid the rising tuition costs by purchasing early. However, since this is a prepaid plan, you can only enroll during certain times of the year. You also have to meet specific residency requirements and there may be age and/or grade limits on the beneficiary.

- Savings 529 Plan: With this plan you are investing your money as well as saving for a future education. Of course you are at the mercy of the stock market and your balance can rise and fall depending on the funds you allocate to your plan. However, any money you put into this plan can go towards any education related expense, even computers and books. There are many tax advantages for both types of plans that make the 529 plan extremely appealing.

Since each state has its own requirements for their 529 college savings plan, you should check with the state in which you reside to see if you meet the conditions. Each state will also have different types of state tax advantages separate from the federal advantages. You will need to evaluate which type of plan is better for your current situation.

As with any financial decision you make, you can talk with a financial advisor or check with your local college/university for their recommendation of a 529 expert in your area.