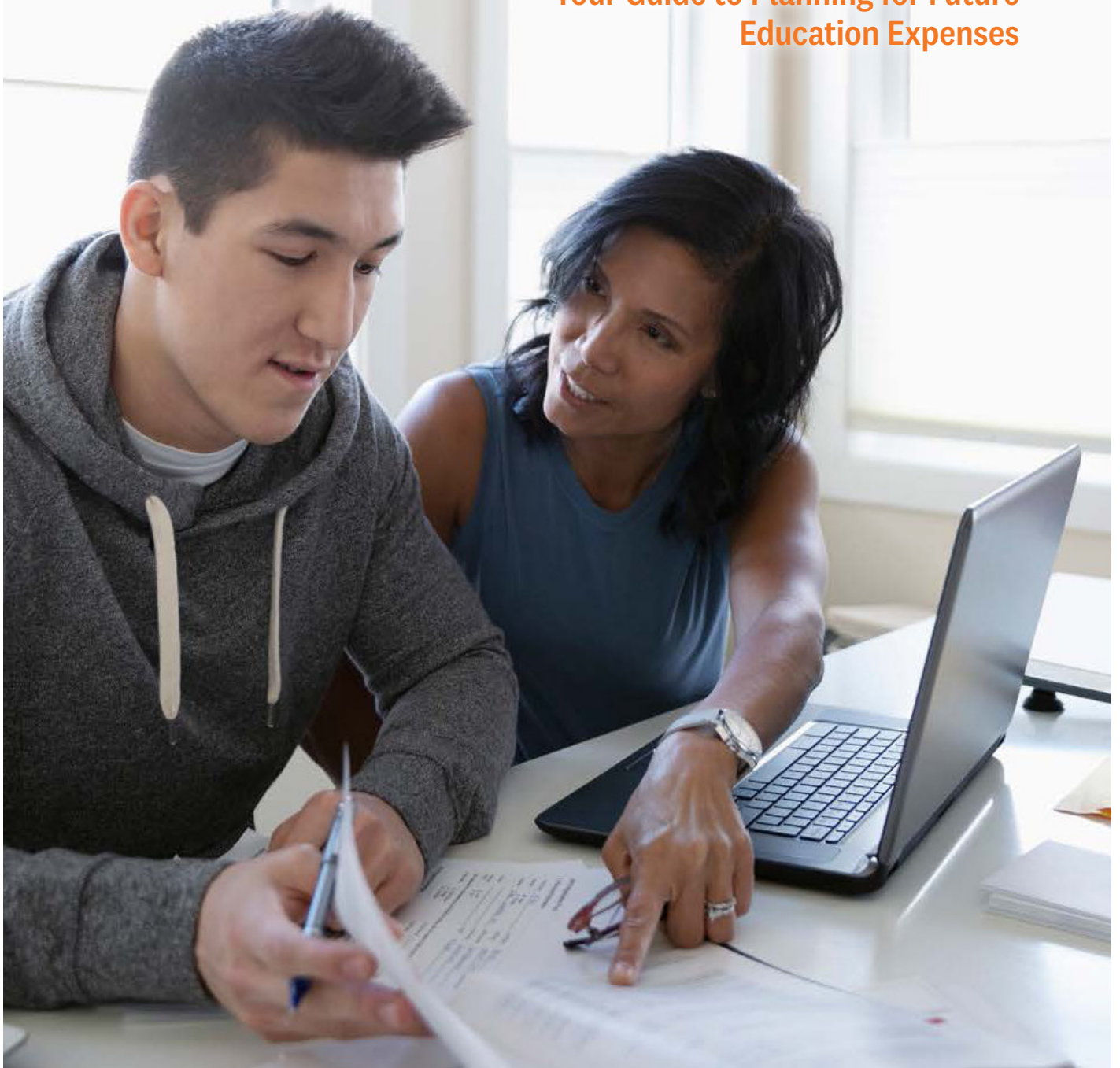


529 EDUCATION SAVINGS PLANS

Your Guide to Planning for Future Education Expenses



Whether or not you've already started saving for a child, grandchild, or your own education needs, there are a number of tax-advantaged strategies that can help you address your goals. Among the most popular are 529 education savings plans, offering federal, and in many cases, state tax benefits. Unlike regular savings accounts, the money you contribute to a 529 account, along with the account earnings, isn't taxed when used to pay for qualified education expenses, which can help you save even more.

EDUCATION COSTS CONTINUE TO STRAIN FAMILY BUDGETS

Despite minimal increases in the inflation-adjusted costs for tuition and fees in recent years, higher education costs remain a significant financial challenge for many families.

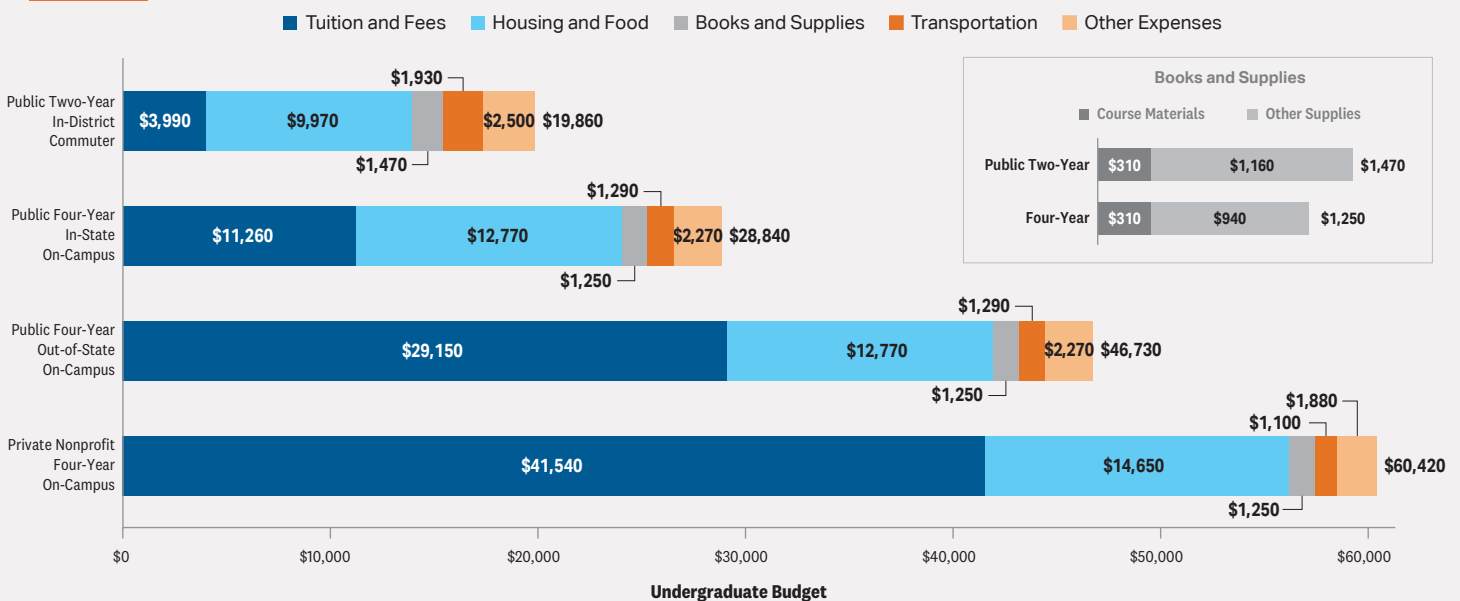
While the average tuition and fees for public two-year schools experienced a modest increase from \$2,650 to \$3,990 over the past 30 years, costs for in-state public four-year institutions more than doubled from \$5,380 to \$11,260. Similarly, private

nonprofit four-year institutions increased significantly from \$23,300 to \$41,540 for the same period, after adjusting for inflation.¹

For many students and their families, in-state public institutions offer a more affordable choice than private institutions. However, it's important to note that tuition only accounts for a portion of college costs. Room and board, course materials, parking, transportation, and other expenses can more than double the cost to attend many schools. For example, when adding these expenses to the price of in-state tuition at the average four-year public institution in 2023-24, total annual costs rose, on average, from \$11,260 for tuition and fees, to \$28,840.²

As a result, the cost of pursuing a four-year undergraduate or an advanced degree program has led many Americans to take on significant student loan debt. Despite a decline in education borrowing over the past 12 academic years (after adjusting for inflation), students and parents borrowed \$98.2 billion for the 2022-23 academic year, down from a peak of \$152.8 billion (in 2022 dollars) in 2010-11.³

FIGURE 1 Average Estimated Full-Time Undergraduate Budgets (Enrollment-Weighted) by Sector, 2023-24



NOTE: Expense categories are based on institutional budgets for students as reported in the College Board's Annual Survey of Colleges. Figures for tuition and fees and room and board mirror those reported in Figure 1. Data for books and supplies, transportation, and other expenses are projected and reflect the average amounts allotted in determining the total cost of attendance and do not necessarily reflect actual student expenditures. Books and supplies may include course materials such as hardcopy textbooks, online textbooks, textbook rentals, and other supplies such as a personal computer used for study.

SOURCE: College Board, Annual Survey of Colleges; NCES, IPEDS Fall 2021 Enrollment data; Student Watch and Student Monitor.



DOES HIGHER EDUCATION PAY OFF?

Studies indicate that workers with more education generally earn more and may also benefit from greater economic stability throughout their careers. For example, bachelor's degree holders are half as likely to be unemployed as their peers who only have a high school degree and they make \$1.2 million in additional earnings on average over their lifetime.⁴

The following average lifetime career earnings by education level, indicate that those who obtain a bachelor's degree nearly double the career earnings of those with a high school diploma alone:⁵

High School Graduate	\$1.3 million
Associate's degree	\$1.7 million
Bachelor's degree	\$2.2 million
Advanced degree	\$2.6 million

MANAGING COMPETING FINANCIAL PRIORITIES

While numerous studies report that four-year and advanced degrees can pay-off over time in the form of higher salary and wages and increased career opportunities, it can be difficult for students and their families to find ways to foot the bill. This can be especially challenging for those juggling competing financial priorities, such as saving for retirement while managing mortgage and consumer debt, and rising healthcare expenses.

Fortunately, there are a number of ways families can save for college and other education costs that also provide important tax advantages. These include 529 education savings plans, prepaid tuition plans, Coverdell Education Savings Accounts (ESAs), UGMA and UTMA custodial accounts, and U.S. savings bonds, among others. While each savings vehicle has different tax implications, limitations, risk factors, investment options, and cost considerations, a 529 plan is the only education savings tool that also offers state tax benefits.

WHAT IS A 529 EDUCATION SAVINGS PLAN?

Established in 1996 under Section 529 of the Internal Revenue Code, 529 plans are versatile savings accounts that offer federal and, often, state tax benefits, while minimizing the impact on financial aid. Designed to help families set aside funds for future education costs, 529 plans are offered by most states and are typically open to all savers, not just their own state residents.

College Savings Comparison ⁶	529 Education Savings Plan	529 Prepaid Tuition Plan	Coverdell ESA	UGMA/UTMA Custodial Accounts	U.S. Savings Bonds
No age limits	✓				
No income restrictions	✓	✓		✓	✓
High contribution amounts permitted	✓			✓	✓
Broad range of investment choices	✓		✓	✓	
Federal tax advantages	✓	✓	✓	✓	✓
Potential state tax advantages*	✓	Varies by state			
Account owner maintains control	✓	✓			
Beneficiary may be changed at any time	✓				
Anyone can contribute on behalf of a beneficiary	✓				✓
Penalties for non-qualified withdrawals	✓	✓	✓		Interest earned is taxed as income
Eligible for Roth IRA rollover**	✓				

* Varies by state

**Effective January 2024, account beneficiaries are permitted to rollover up to \$35,000 in unused 529 account assets, subject to certain restrictions.

THE 529 ADVANTAGE

Whether you're saving for yourself, a child, grandchild, or another relative or friend, 529 education savings plans offer unique benefits that can help you pursue a number of important financial goals.⁷

Flexibility

- Contributions can be made by anyone, for any beneficiary
- High maximum contribution amounts
- Low minimum investments
- No income restrictions
- Assets can be used for most education expenses, including tuition, room and board, books, computers, and supplies at most two- and four- year colleges, technical, vocational, and graduate schools
- Assets can be used to pay for up to \$10,000 a year in K-12 tuition for primary or secondary public, private, and religious schools

Tax Advantages

- Growth, earnings, and withdrawals are free from federal (and in most cases state) taxes, if used for qualified education expenses
- Contributions are considered gifts for tax purposes and subject to federal gift tax limitations

Estate Planning

- 529 accounts allow grandparents, friends, and family to contribute the highest amount that can be contributed before incurring gift taxes
- They are one of the only assets that account owners can remove from their taxable estate while maintaining control over the assets
- Any contribution you make to your grandchild's education through a 529 savings plan will reduce the amount of your taxable estate by the amount of the 529 plan contributions

Control

- The account owner maintains control of the account
- The account beneficiary and even the owner may be changed at any time.

This information isn't intended to be a substitute for specific individualized tax advice. We suggest that you discuss your specific tax issues with a qualified tax advisor.

HOW DO 529 PLANS WORK?

There are two basic types of 529 plans — prepaid tuition plans and savings plans. A prepaid tuition plan enables a family to pay for future tuition now in current dollars and at current prices. A 529 savings plan, on the other hand, offers the ability to accumulate funds in a tax-advantaged manner for future tuition costs. Some state-sponsored plans offer incentives to in-state participants, such as state income-tax deductions or credits.⁸

Who can open an account?

A 529 plan can be used to save for educational expenses for any student in your family, including yourself. The person who opens the 529 plan account is called the account holder. The person the account is opened for is called the beneficiary. However, the account holder and the beneficiary can be the same person.⁹

Who can contribute?

While there can only be one designated beneficiary for each 529 savings plan account, there is no limit to the number of 529 accounts you can open and contribute to for children, grandchildren, or other beneficiaries. You may also contribute to the 529 savings plan accounts established by others. In fact, a growing trend among new parents is to request friends and relatives make a 529 plan contribution in lieu of baby gifts upon the birth of a child, or later, in lieu of birthday gifts. This can be a great way to jumpstart education savings, while children are still young, and take advantage of the power of tax-deferred compounding over time.

However, keep in mind that if you contribute to an account established by someone else, because you aren't the account owner, you'll lose the ability to control how your contribution is invested, whether the contribution is withdrawn from the 529 savings plan account, or whether the account owner changes the designated beneficiary for the account. You'll also lose the ability to make a withdrawal from the account if your financial circumstances change. In addition, you may not be able to receive beneficial state income tax treatment for the contribution—either because you don't live in the state where the 529 savings plan is issued or because such benefits are only offered to account owners.



Contribution limits

One of the many benefits of saving for future education expenses with a 529 plan is that contributions are considered gifts for tax purposes. For 2024, the annual gift tax exclusion is \$18,000 per recipient for individual taxpayers (\$36,000 per recipient for a married couple filing jointly).

However, there is an exception that enables the account owner to “front-load” the plan by contributing up to five years of gift-tax-exempt funds into the 529 account in a single tax year. Since the current gift tax exemption is \$18,000, this would allow contributions up to \$90,000 per individual, or \$180,000 for a married couple filing jointly.¹⁰

Eligible withdrawals

When it's time to withdraw savings to pay for eligible education expenses, several considerations must be taken into account. To qualify for federal tax-free withdrawals on earnings, savings contributed to a 529 plan must be used for qualified education expenses, as defined under Section 529 of the tax code.¹¹

Qualified education expenses

- Up to \$10,000 annually in tuition expenses for K-12 elementary or secondary public, private, or parochial schools
- For higher education institutions, tuition, mandatory fees, books, computers/ Internet access, supplies, and equipment required for enrollment or attendance are all qualified expenses
- Certain room and board costs during any academic period for which the beneficiary is enrolled at least half-time, and certain expenses for special-needs students are also eligible
- In addition, the SECURE Act of 2019 allows 529 plan distributions of up to \$10,000 to repay qualified student loans of the beneficiary. An additional \$10,000 can be used for the qualified student loans of each of the beneficiary's siblings. The \$10,000 cap is a lifetime—not annual—limit. It also allows 529 plan distributions to pay for registered apprenticeship programs.¹²



Eligible institutions

- Generally any college, university, vocational school, or other postsecondary educational institution eligible to participate in a student aid program administered by the U.S. Department of Education
- Elementary or secondary public, private, or religious schools
- Some international schools and overseas study programs also qualify
- Continuing education required to maintain a professional license may also be eligible, depending on the institution where you take the course

What happens to funds that aren't used for qualified higher education expenses?

One of the advantages of saving through 529 plans is that you never lose control of the assets. If a beneficiary chooses not to go to college, the account owner can take a non-qualified withdrawal (subject to taxes and penalties), change the beneficiary, rollover assets to a Roth individual retirement account (IRA), as long as certain conditions are met, or simply hold onto the account in the event the beneficiary decides to go to college at a later date. Since there are no age or time limits to use the funds, you could

hold onto the account, allowing earnings to accrue for the benefit of a younger child, future grandchild, or other beneficiary.

However, keep in mind that the earnings portion of any withdrawal not used for qualified education expenses is subject to federal and state income taxes and may also be subject to a 10% federal tax penalty. Exceptions to this penalty include a withdrawal made because the beneficiary:¹³

- Dies or becomes disabled
- Receives a scholarship (to the extent that the withdrawal amount does not exceed the scholarship amount)
- Attends a United States military academy (to the extent that the amount of the withdrawal does not exceed the costs of education attributable to such attendance)
- Is eligible to rollover assets to a Roth IRA

529-to-Roth IRA rollover

The Secure 2.0 Act provides an additional solution for unused 529 account assets. Effective January 2024, funds in a 529 account can be rolled over to a Roth IRA account for the same beneficiary, as long as certain restrictions are met.

Rollovers are subject to a lifetime limit of \$35,000 per beneficiary, the 529 account has to have been open for at least 15 years, the funds being rolled over must have been in the account for at least five years, and annual Roth IRA contribution limits apply. As such, the eligible rollover amount is reduced by any IRA contributions made by the beneficiary in the same year.¹⁴

This information isn't intended to be a substitute for specific individualized tax advice. We suggest that you discuss your specific tax issues with a qualified tax advisor.

CHOOSING A 529 PLAN

Deciding whether or not a 529 education savings plan, which offers a myriad of tax and estate planning benefits, can help you pursue your financial goals may be the easy part. Choosing the right 529 plan for your needs can be more difficult. That's because all 50 states and the District of Columbia offer plans. When choosing a 529 plan, you should always consider your home state plan first as your state may offer state tax or other benefits to residents.

HOW WE CAN HELP

Whether you're a parent planning ahead for a child's education expenses, or grandparent seeking to leave a legacy to loved ones, a comprehensive approach to planning is essential for balancing multiple financial goals, from education, tax and retirement planning, to legacy and estate planning. Planning establishes a framework for pursuing all of your goals, including how you'll pay for college education costs and other expenses. It can also help you understand how the financial decisions you make now may support or detract from your ability to accomplish your long-term goals, while offering the flexibility to accommodate changes at every stage of your life. Think of your plan as a road map for dealing with uncertainty, managing change, and helping you overcome obstacles along the path to your goals.

Partnering with an experienced, independent financial advisor who places your best interests first can help you not only work toward your goals, but make confident decisions about your wealth and your future by:

- Developing a written financial and retirement plan based on your goals and objectives
- Providing experienced guidance, insight, and advice
- Recommending opportunities to optimize your strategy and asset allocation
- Monitoring your progress against goals
- Helping you adjust your strategy over time

QUESTIONS?

If you have questions about funding current or future education expenses, contact us to schedule time to talk about your education planning needs.



- ^{1,2,3} College Board: Trends In College Pricing And Student Aid 2023. <https://research.collegeboard.org/media/pdf/Trends%20Report%202023%20Updated.pdf>
- ^{4,5} APLU: How does a college degree improve graduates' employment and earnings potential? <https://www.aplu.org/our-work/4-policy-and-advocacy/publicvalues/employment-earnings/>
- ⁶ FINRA.org, College Savings Account Types <https://www.finra.org/investors/investing/investment-accounts/college-savings-accounts#types> and IRS.gov: <https://www.irs.gov/newsroom/tax-benefits-for-education-information-center>
- ^{7,8} SEC.gov: Updated Investor Bulletin: An Introduction to 529 Plans <https://www.sec.gov/about/reports-publications/investor-publications/introduction-529-plans>
- ⁹ SEC.gov: Updated Investor Bulletin: 10 Questions to Consider Before Opening a 529 Account https://www.sec.gov/oiea/investor-alerts-and-bulletins/ib_529accountquestions
- ¹⁰ SavingforCollege.com: <https://www.savingforcollege.com/article/how-much-can-you-contribute-to-a-529-plan>
- ¹¹ IRS.gov: <https://www.irs.gov/pub/irs-pdf/p970.pdf>
- ¹² SEC.gov: <https://www.sec.gov/reportspubs/investor-publications/investorpubsintro529htm.html>
- ¹³ SavingsforCollege.com: <https://www.savingforcollege.com/intro-to-529s/what-is-the-penalty-on-an-unused-529-plan>
- ¹⁴ SEC.gov: Updated Investor Bulletin: An Introduction to 529 Plans <https://www.sec.gov/about/reports-publications/investor-publications/introduction-529-plans>

This material was prepared by LPL Financial, LLC.

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Asset allocation does not ensure a profit or protect against a loss.

Prior to investing in a 529 Plan, investors should consider whether the investor's or designated beneficiary's home state offers any state tax or other state benefits, such as financial aid, scholarship funds, and protection from creditors that are only available for investments in such state's qualified tuition program. Withdrawals used for qualified expenses are federally tax free. Tax treatment at the state level may vary. Please consult with your tax advisor before investing.

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual.

This information is not intended to be a substitute for specific individualized tax advice. We suggest that you discuss your specific tax issues with a qualified tax advisor.

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