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529 101: College Savings Plan Basics Kevin Grogan

Since today is May 29, I thought it would be a good time to discuss the benefits of starting a 529 college savings plan. For parents who want to save for their children's education, 529 plans are a great option to consider for at least a portion of their college savings.

Essentially, 529 plans are to college what Roth IRAs are to retirement. Specifically, they are tax-advantaged accounts run by individual states intended for saving for college.

Key Benefits of 529 Plans

- 1. Federal tax benefits:** Individuals contribute after-tax dollars that grow tax free (similar to a Roth IRA). Withdrawals that are used to pay for qualified college expenses are not taxed.
- 2. State tax benefits:** Of the 50 states, 29 states offer state tax deductions for contributing to your own state's 529 plan. There are five states (Arizona, Kansas, Maine, Missouri and Pennsylvania) that offer state tax deductions for contributing to any state's 529 plan. Unfortunately, seven states (California, Delaware, Hawaii, Kentucky, Massachusetts, Minnesota and New Jersey) do not offer a state tax deduction for 529 plan contributions. The remaining nine states do not have a state income tax.
- 3. Professional management:** 529 plans are professionally managed, and most plans offer age-based options that adjust as a child ages. However, it is important to spend some time up front [selecting which state's 529 plan to use](#).
- 4. Flexibility:** It is possible to change the beneficiary of the plan. For example, for families that have several children, if the original beneficiary does not attend college, the beneficiary designation can be changed to a different sibling. For families with only one child, the beneficiary can be changed to a niece, nephew or future grandchild.

Note: Earnings on funds withdrawn from a 529 plan that are not used for college expenses are subject to federal income tax plus a 10 percent penalty. If the beneficiary receives a scholarship, dies or becomes disabled, the 10 percent penalty does not apply.

Today is a great day to spend a few minutes reviewing your college savings plan. And, if you don't already have a plan in place, it's an even better day to create one.

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Kevin Grogan is director of investment analysis for the BAM ALLIANCE.

In addition to his advising duties, Kevin conducts investment research and writes articles on a wide range of topics, including retirement planning and investment policy.

Kevin co-authored *The Only Guide You'll Ever Need for the Right Financial Plan* with Larry Swedroe and Tiya Lim. This step-by-step handbook focuses on the art of investing by providing investors with information they can use to build a tailor-made investment strategy.

He also co-authored the article "The Maturity of Fixed-Income Assets and Portfolio Risk" with Larry Swedroe, which appeared in the Winter 2009 issue of *The Journal of Investing*.

Kevin holds an MBA from Saint Louis University and a bachelor's of science in finance from Missouri State University in Springfield.

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