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Uncovering the truth about 529 plans

Saving to cover the cost of college can seem daunting, but with consistent investing, sound financial advice and a 529 plan, affording college educations for the children in your life is achievable. Although 529 plans have been around for years, a few common misconceptions persist. Don't let the following mistaken beliefs lead you to miss out on the benefits of using a 529 plan to save and invest for a child's education.

	Misconceptions	Reality
1	**You can only invest in your state's plan.**	You can invest in any 529 savings plan from any state. However, some states, potentially including your home state, may offer 529 plans that provide taxpayers with state tax and other benefits that are only available through the home state's 529 plan.
2	**A 529 plan can only be used at schools in that plan's state.**	You can use the assets at any eligible school (i.e., one that is accredited by the U.S. Department of Education) around the country and abroad. That includes two- and four-year colleges, graduate schools and vocational/technical schools. Additionally, there are some plans that allow for tax-free withdrawals for up to $10,000 of tuition (only) for K-12.
3	**You make too much money to contribute to a 529 plan.**	Unlike other savings vehicles such as Coverdell ESAs, 529 plans do not have income limitations for contributions. In fact, "accelerated gifting" allows the account owner to apply up to five years of annual gift tax exclusions in a single lump sum contribution ($75,000 if single or $150,000 if married, filing jointly) in a single year without incurring a gift tax.[1] Contribution funding limits vary and are established by each plan.
4	**If your child does not go to college, you will lose the money.**	Unlike other college savings and investment options, a 529 account owner controls the account. That includes being able to change the beneficiary to another eligible "member of the family" (as per IRS rules). Assets in a 529 account can grow in perpetuity; there are generally no time or age limitations on use or distribution of your account.[2] 529 assets can also be returned to the account owner as a non-qualified withdrawal, but earnings will be subject a 10% federal penalty as well as federal, state and local income tax.
5	**If your child receives a scholarship, you will lose the money.**	In this circumstance, 529 plan assets can be returned to the account owner as a non-qualified withdrawal. The 10% federal penalty will be waived and the earnings component (but not the principal) will be subject to federal state and local income taxes. Alternatively, you can change the beneficiary to another eligible "member of the family."

Misconceptions		Reality
6	A 529 plan is only for kids.	There is no maximum age for a 529 plan owner or beneficiary. Assets in a 529 account may be withdrawn tax-free for a beneficiary of any age to pay for higher education including college, graduate schools and vocational/technical schools. In fact, you can be your own account's beneficiary. As long as your school is eligible, you can use 529 plan assets—even if you are not attending full-time.
7	You can only use 529 plans to pay for tuition.	529 plans are very flexible. You can use your account assets to pay for many qualified higher education expenses, including tuition, fees, certain room and board costs, books and computers. In addition, a federal tax provision allows you to pay up to $10,000 in tuition expenses at elementary or secondary public, private or parochial schools, as well (although state tax treatment[3] varies for K-12 withdrawals).
8	Only a parent can be a 529 plan account owner.	With few exceptions, there are no limitations on who can be account owners or beneficiaries.[4] Trusts, corporations and custodial accounts with valid tax ID numbers may also be account owners.
9	Only the account owner can contribute to a 529 plan.	For most 529 plans, anyone can contribute to an account that has been set up. Most 529 plans will allow only one account owner for each beneficiary, but other family members and friends can contribute.
10	Investing in a 529 plan lowers qualification for financial aid.	A 529 plan has a relatively small impact on federal financial aid eligibility because 529 assets are considered assets of the account owner, rather than the beneficiary. When the parent is the account owner, 529 assets are factored into the expected family contribution rate (5.64%), the same as any other parental asset. Consult with a financial professional to learn more about the expected impact of your 529 plan on financial aid.

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1 Under a special rule, contributions of $75,000 ($150,000 for married, filing jointly) can be made in one year and prorated over a five-year period without incurring gift taxes or reducing your unified estate and gift tax credit. If the contributor dies before the five-year prorating period expires, the contributions allocated to the remaining years move back into the contributor's taxable estate. Any appreciation on the entire original gift is not considered part of the estate. **2** Virginia's 529 plan has a 30-year limitation on use of assets. **3** For state tax treatment, check your individual state guidelines. Not all states consider K-12 tuition a qualified expense. **4** You must be a U.S. citizen or resident alien, have a Social Security number or Tax Identification number and have a permanent U.S. address.

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