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FIVE FREQUENTLY ASKED QUESTIONS ABOUT SAVING FOR EDUCATION

THOUGHT LEADERSHIP PERSPECTIVES

BY BRADLEY WALZ

THERE ARE MANY FACTORS TO CONSIDER WHEN SAVING FOR FUTURE EDUCATION COSTS—THE TIME BETWEEN NOW AND WHEN THE FUNDS ARE NEEDED, RISK TOLERANCE OF THE INVESTOR, INVESTMENT PREFERENCE, AND INDIVIDUAL TAX SITUATION.

It may be obvious, but we always recommend saving for education as early as possible in a child's life, so that there's a more sizable time horizon for the money to grow. Some of the most common questions we are asked by our clients at Fairman Group Family Office include:

1. I WANT TO START SAVING FOR MY CHILD'S EDUCATION. WHERE SHOULD I START?

529 Plans are the most popular savings plans available, largely due to their flexibility and high contribution limits. Proceeds

from these plans can be used to cover education expenses such as tuition, room and board, computers, books and other related costs. In addition to college, the Tax Cuts and Jobs Act expanded the use of 529 Plans to cover up to \$10,000 per beneficiary per year for K-12 costs. In other words, 529's are not just for college anymore. 'After tax dollars' are used to fund a 529 Plan, and the earnings grow tax free. When distributions from a 529 Plan are used for qualified education expenses, the withdrawals are also completely tax free. This means taxpayers can benefit from up to 18 years of tax-free growth!

2. HOW MUCH CAN I CONTRIBUTE TO A 529 PLAN?

In Pennsylvania, contributions of up to \$15,000 (or \$30,000 for married taxpayers) per beneficiary can be made annually. Optionally, a one-time lump sum contribution equal to 5 times this amount can be made for those who wish to front-load the

plan. You can also contribute periodically throughout the year via direct deposit. Many account owners find this easier for both administrative and cash flow purposes. Furthermore, keep in mind that contributions to these plans make great gifts, especially for birthdays or around the holidays!

3. ARE THERE TAX BENEFITS TO USING 529 PLANS?

Contributions made to 529 Plans are not deductible at the federal level; however, some states do offer tax deductions. For example, Pennsylvania allows taxpayers to deduct up to \$15,000 (\$30,000 for married taxpayers) from taxable income, per recipient.

4. WHICH 529 PLAN SHOULD I CHOOSE?

All 50 states offer their own specific plans, each with their own respective fees and investment options. While there may be benefits to investing in your own state's plan, this is not mandatory. Many states, including PA, NJ & DE, allow you to choose a 529 Plan from any other state. Before selecting a certain state's plan, consider the investment options available, any applicable fees or costs, limits on portfolio rebalancing, and your own state tax benefits.

The account owner remains in control of the 529 Plan assets, directing the investment of funds within the plan, as well as distributions from the account. Most plans offer a number of investment options to choose from, ranging from prepaid tuition credits to individual mutual fund investments. Often the easiest and most effective choices are age-based options or

pre-canned portfolios that are classified as aggressive, moderate, or conservative. Understanding your risk tolerance and time horizon, until funds may be needed, is critical before selecting an appropriate investment mix.

5. WHAT HAPPENS TO THE MONEY IN THE 529 SAVINGS PLAN IF IT IS NOT USED FOR EDUCATION (K-12 OR COLLEGE)?

If the selected beneficiary does not need the 529 Plan assets for education (for instance, if they receive grants or scholarships, if tuition cost is less than expected, or if the money is needed for another reason), not to worry. The account holder has the ability to change the beneficiary to another qualified family member without incurring any taxes or penalties. If all else fails, distributions from the account for other than qualified education expenses are allowable; however, ordinary income taxes and a 10% penalty are due on the earnings portion of the distribution.

Discussion about education planning often revolve around 529 savings plans, however nothing is "one size fits all".

IF YOU WOULD LIKE TO EXPLORE HOW 529 PLANS OR OTHER EDUCATION SAVINGS STRATEGIES FIT INTO YOUR OVERALL FINANCIAL PLAN, FAIRMAN GROUP FAMILY OFFICE IS READY TO HELP.

ABOUT FAIRMAN GROUP FAMILY OFFICE

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