

# Education Planning

## What is a 529?

A 529 plan is an investment account specifically designed for educational savings for a beneficiary, the individual for whom the account is created for. You can set up a 529 account for anyone: yourself, a child, a family member, a loved one, or a friend. Additionally, family members, friends, and loved ones can make contributions to a 529 account to help with funding over the years, and there is no minimum to open or contribute to these accounts. There is no age limit for a beneficiary (restrictions exist for some prepaid plans), meaning an adult of any age can start his or her own 529 plan and serve as both the account holder and the beneficiary.



There are two types of 529 plans: college savings plans and prepaid tuition plans. College savings plans allow you to invest contributions to withdraw in the future for qualified education expenses, while prepaid tuition plans allow you to purchase college credits at today's prices to be used in the future. Prepaid tuition plans are more restrictive than savings plans.

Prepaid Tuition Plan	Education Savings Plan
Allows you to prepay tuition at eligible public and private colleges and universities at today's prices.	No lock on college costs.
All plans cover tuition and mandatory fees. <ul style="list-style-type: none"><li>Some plans allow you to purchase a room and board option, use excess tuition credits for other qualified expenses, or cover all qualified education expenses.</li></ul>	Covers all "qualified higher education expenses:" <ul style="list-style-type: none"><li>Tuition</li><li>Room and board</li><li>Mandatory fees</li><li>Books, computers, software (if required).</li></ul>
Most plans set lump sum and installment payments prior to purchase based on the age of the beneficiary and the number of years of college tuition purchased.	Many plans have contribution limits in excess of \$250,000.
Many plans are guaranteed or backed by the state.	No guarantee; most investment options are subject to market risk.
Some plans have age or grade limits for beneficiaries.	No age limit; open to adults and children.
Most plans require either the plan owner or the beneficiary to be a state resident at the enrollment time.	Most plans do not have a residency requirement; however, none residents may only be able to purchase some plans through financial advisors or brokers.
Most plans have a limited enrollment period.	Enrollment is open all year.

Source: *Smart Saving for College*, FINRA®

# Top 3 Benefits of 529 Plan

## 1. Flexibility:

- These accounts are not only for the typical four-year college and university tuition costs. 529 accounts can also be used to fund trade and vocational schools, community colleges, graduate schools, and any institutions that participate in the U.S. Department of Education student financial aid programs.
- As a result of the 2017 Tax Cuts and Jobs Act (TCJA), 529 funds – up to \$10,000 per child annually – can be used for kindergarten through 12th-grade tuition. 529 funds are also eligible for additional qualified higher education expenses that are not included in tuition like fees, books, supplies, and even room and board if the student is enrolled at least part-time.
- Although 529 accounts can only have one beneficiary at a time, the owner of the 529 account can easily change the beneficiary to a qualified family member. A few examples of qualified family members include another child, spouses, nieces or nephews, and siblings.

## 2. Tax Benefits:

Many states offer residents a deduction or credit (subject to limitations) for contributions to the state's plan, and some states even allow you to deduct contributions to any state's plan. You are not restricted to investing in your state's 529 plan(s), so it is important to shop around and know your options and the different tax advantages you can leverage.

529 funds benefit from federal and state tax-free growth, and qualified withdrawals are tax-free. Additionally, earnings on contributions to a 529 plan are tax-deferred, and distributions from the 529 plan are exempt from federal income tax if used for qualified expenses.

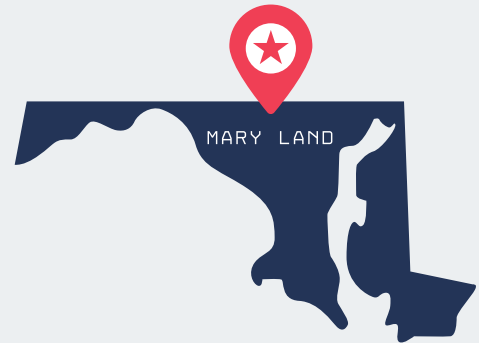
## 3. Growth Potential:

- 529 plan assets are professionally managed and typically invested based on the anticipated year the money will be needed for education expenses. This helps ensure your contributions take full advantage of potential market growth. As the beneficiary of the account ages, the funds in the account have the opportunity to grow just as they would in a typical investment account with an added incentive: All 529 plan funds benefit from tax-free growth.

# Local Options

## MARYLAND

- The Maryland 529 Program provides a \$250 or \$500 state contribution (you must make the minimum contribution of \$25, \$100, or \$250 based on your household income to be eligible) to encourage residents to get their plans started.



### Prepaid college trust:

- Account holders and contributors can deduct up to \$2,500 a year per account.
- Contributions in excess of \$2,500 can be carried forward until the full amount of payments has been deducted.

### College investment plan:

- Account holders and contributors can deduct up to \$2,500 a year per beneficiary.
- Contributions in excess of \$2,500 can be carried forward for ten years.



## VIRGINIA

- Account holders can deduct up to \$4,000 a year per account.
- Unlimited carry forward to future tax years (subject to certain restrictions).

## D.C.

- Account holders can deduct up to \$4,000 a year. Married couples can deduct up to \$8,000 per year if each person makes contributions to his or her own account.
- Five-year carry forward of excess contributions to future tax years.

