# Choosing a 529 Savings Plan

With so many 529 savings plans to choose from, it's important to ask a lot of questions in order to select the best plan for you.

## Compare the plans offered by different states

If you're interested in opening a 529 savings plan account, consider all your options. You can typically join any state's 529 savings plan, so consider comparing a few different plans in terms of account ownership and beneficiary designation rules, tax benefits, investment options, contribution rules, and costs and fees. Any state that offers a 529 savings plan can provide you with a free packet of information that describes the program and its rules. You can also check out a plan's website.

## Account ownership and beneficiary designation rules

When comparing savings plans, keep plan flexibility in mind with respect to account ownership and beneficiary designation rules. These rules may vary from state to state. As an account owner, you'll want to make sure the account works the way you want it to work.

Generally, the account owner retains ownership and a certain amount of control over the savings plan account. For example, he or she can change the beneficiary of the account or terminate the account and receive a refund of contributions. However, keep in mind that if you terminate the account, you'll typically receive back only a portion of your earnings, if any, and a penalty will generally apply, unless you terminate the account because the beneficiary has died or is disabled. Here are some questions to ask when researching various plans:

- Can I own the account jointly with my spouse or another person?
- Can a trust or other entity be an account owner?
- Can I name a successor owner when I open the account? If not, what happens to the account when I die?
- Must the account owner be a state resident? Must the beneficiary be a state resident?
- What happens if the account owner or beneficiary later moves out of state?
- Are account statements issued only to the account owner or also to the beneficiary?
- If I terminate the account, how much of my contributions and earnings will I get back, and will I pay a penalty?

## Tax considerations

Some individuals favor 529 savings plans over other college savings vehicles because of the federal (and sometimes state) tax advantages associated with 529 plans. Let's face it — we all want to keep our taxes to a minimum. No matter which 529 savings

plan you join, all qualified withdrawals will be free of federal income tax. But things differ at the state level.

States typically exempt the earnings in a 529 savings plan from income tax if the withdrawal used to pay qualified education expenses. Some states may also offer an income tax deduction for some or all of your plan contributions in a given year. Other states offer no such income tax benefits. Since state tax benefits can vary, and remember — you're entitled only to the state tax benefits (if any) offered by the state in which you reside. So research the state tax benefits available in your state. Keep in mind that states may limit their tax benefits to individuals who participate in the in-state 529 plan only.

Consider, also, any state gift tax issues regarding contributions, and whether there are state penalties for withdrawals that are not used for permitted education expenses (most states follow the federal tax treatment for nonqualified withdrawals.)

The following questions can help you determine what tax advantages each state offers:

- Can I claim a deduction on my state income tax return for my contributions to the 529 savings plan? Is there a limitation or cap placed on the amount of my state income tax deduction? If so, what is it?
- Is my deduction recaptured into income if later withdrawals are not used for qualified education purposes?
- If a withdrawal from the savings plan is used to pay qualified education expenses, are the plan's earnings exempt from state income tax? Must I join my own state's 529 saving plan to get state tax benefits?
- Are K-12 contributions or withdrawals treated differently than college contributions or withdrawals for state tax purposes?

## Investment options

Another consideration in choosing a 529 savings plan account is the number and type of investment options offered by each plan. Since some investors are more comfortable with risk than others, investment choice is important. For example, if you're a conservative investor with very limited funds, you might want to choose a plan that offers one or more conservative investment options. Investment choice may also be important if you're a sophisticated investor who wants to maximize return. However, keep in mind that all investing involves risk, including the possible loss of principal, and there can be no assurance that any investment strategy will be successful.

529 savings plans typically offer several different investment portfolios that you can pick from to invest your contributions. Plans typically offer static portfolios that vary in their amount of risk and where the asset allocation in each portfolio remains the same over time, and age-based portfolios, where the underlying investments gradually and automatically become more conservative as the beneficiary gets closer to college.

If you want to change your investment option(s), you can generally do so twice per calendar year for your existing contributions, anytime for your future contributions, or anytime you change the beneficiary of the account.

You may want to look at the past investment performance of a particular portfolio and compare it with other portfolios in different plans. You should also think about the reputation of the plan manager. Here are some investment-related questions to ask:

- How many investment options does the 529 savings plan provide?
- Are age-based portfolios offered? If so, can I select a portfolio other than one designed to match the age of my designated beneficiary?
- Is there a limit on how many investment options I can choose?
- Can I choose one investment portfolio with today's contribution, and a different portfolio with future contributions?
- Under what circumstances will the plan let me switch my existing contributions (and earnings) from one portfolio to another portfolio?
- Can I make changes to my investment selections online or over the phone, or do I need to send in a written request? Is the plan's website easy to use?
- Who manages the plan's investments, and how solid is that company's reputation?
- When does the investment manager's contract with the plan end? What happens to my account if the state changes investment managers?

## Contribution rules

What's are the plan's contribution rules? Most plans have lifetime contribution limits of $350,000 and up. Find out the answers to the following questions:

- What's the maximum contribution limit for the plan?
- What's the minimum amount I must contribute to establish the savings plan?
- Are annual contributions required? If so, how much?
- Can someone other than the account owner make plan contributions? If so, what are the mechanics?

- Are the contribution limits different if I am a resident of the state or a nonresident?

## Costs and fees

Since plan costs and fees can really add up and take a bite out of your funds, consider the expenses associated with each plan and compare the overall costs of different plans. Consider the following questions:

- Are residents and nonresidents treated differently in terms of plan costs and fees?
- Is there an application fee, beneficiary substitution fee, or account owner substitution fee?
- What other fees and costs are charged, and what are the amounts?
- Will my fees be less if I contribute through payroll deduction or automatic deduction from my checking account?
- Is there a fee to do a rollover to another state's plan?
- Will I be penalized if I move my account out of the plan within a short time after I open the account? How short a time?
- Is there a fee if I terminate the account?
- Do I pay the fees separately, or is the fee deducted from my account?

***Note:*** *Investors should consider the investment objectives, risks, charges, and expenses associated with 529 plans before investing; specific plan information is available in each issuer's official statement. There is the risk that investments may not perform well enough to cover college costs as anticipated. Also, before investing, consider whether your state offers any favorable state tax benefits for 529 plan participation, and whether these benefits are contingent on joining the in-state 529 plan. Other state benefits may include financial aid, scholarship funds, and protection from creditors.*

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