Financial Foundations – Powered by Newtown Savings Bank

529 Savings Plans: Educations Savings for Families

Much like the way 401(k) plans revolutionized retirement savings decades ago, 529 savings plans have transformed how families prepare for education costs. These tax-advantaged accounts have become one of the most popular and effective ways to save for college, offering you flexibility, high contribution limits, and unique tax benefits that set them apart from other education savings vehicles.

Tax Advantages and Flexibility

One of the most compelling features of a 529 savings plan is its tax treatment. Contributions grow tax-deferred, and withdrawals used for qualified education expenses are completely tax-free. This includes tuition, fees, housing, books, and supplies at accredited colleges and graduate schools in the United States or abroad. Funds can also be used for certified apprenticeship programs, student loan repayment up to $10,000 per beneficiary, and even K–12 tuition expenses up to $10,000 annually. In addition to federal benefits, many states offer their own tax incentives, such as deductions for contributions, making these plans even more attractive.

Beyond tax advantages, 529 plans provide remarkable flexibility. Anyone can open an account regardless of income level, and most plans allow lifetime contributions of $350,000 or more. Account holders can change beneficiaries within the family at any time without tax or penalty implications, and they can roll over funds to another 529 plan once per year. Recent updates have expanded this flexibility further, allowing transfers to ABLE accounts for disability-related expenses or to Roth IRAs for the same beneficiary, all without tax or penalty.

Professional Management and Estate Planning Benefits

Although 529 plans are sponsored by states, they are managed by professional financial institutions that oversee the investment portfolios. Most plans offer age-based investment options that automatically adjust as the beneficiary approaches college age, helping you align your savings strategy with your risk tolerance. For those looking to make a significant impact on a loved one’s education while reducing their taxable estate, 529 plans offer accelerated gifting opportunities. You can contribute up to five times the annual gift tax exclusion amount in a single year – $95,000 for individuals and $190,000 for married couples –without incurring gift tax, provided the gift is treated as being spread over five years.

Choosing the Right Plan

Each 529 Savings Plan varies by state and has its own rules, investment options, and fee structures, which can significantly affect long-term savings. You should consider factors such as state tax benefits, investment choices, and ease of account management. Consulting a financial professional can simplify the process, especially since some plans are available only through advisors.

Getting Started

Opening a 529 account is straightforward. After completing an application and naming a beneficiary, you select investment portfolios and make an initial contribution. Most plans allow ongoing contributions at any time, and many offer automatic monthly transfers for convenience.

While federal law limits investment changes to twice per year, future contributions can be allocated freely, giving accountholders control over their savings strategy.

For more information on 529 savings plans and how they can help you prepare for education costs, contact Luke Robichaud, Director of Wealth Management at Newtown Investment Solutions, via email at luke.robichaud@osaicinstitutions.com.