

Money Matters

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Question of the Month: 5 Myths of 529 Accounts

By Aaron Skloff

Q: What are the top five myths of 529 higher education savings plans?

A child born today can expect to pay over \$154,000 for an undergraduate public college degree and \$395,000 for a private college.

Congress established Section 529 of the tax code so savings used for qualified higher education expenses at an accredited education institution would be free from taxes. However, there are a number of misconceptions about 529 plans.

1. Money Contributed to a 529 Must be Used for my Children's College Education. Myth. The money can be used for any purpose for anyone. If it is not used by the beneficiary for higher education expenses, only the gains will be assessed a 10% penalty and taxed as income.
2. Contributions are Limited to \$12,000 Per Year. Myth. The annual contribution for 2009 is \$13,000. A married couple could contribute \$26,000 each year to each of their children's 529 plans.
3. Beneficiaries Cannot be Changed. Myth. You can change the beneficiary at any time. To avoid federal income tax and a 10% federal tax penalty on earnings, the new beneficiary must be a member of the family of the previous beneficiary (i.e.: sibling, spouse, parent, etc.).
4. Investments Cannot be Changed. Myth. Changes can be made once every year. For 2009, the IRS issued a special rule that allows investors to make investment changes in their 529 plans twice a year.
5. There are No Estate Planning Benefits. Myth. 529s are one of the most powerful, lowest cost estate planning vehicles. Unlike most solutions that remove assets from estates and leave little control over investments and beneficiaries, the 529 allows owners to change investments and beneficiaries every year.

Contributing to a 529 provides a disciplined way to save for higher education and could be a powerful estate planning tool. Like most investments, the earlier you begin contributing the more wealth you can create in the end.

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