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## How New Jersey's college savings plan stacks up

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### IT'S YOUR BUSINESS

**Q: We are concerned about the increasing cost of higher education. What are the strengths of New Jersey's 529 college savings plan for New Jersey residents and how does it compare to other states' 529 plans?**

The 529 college savings plan is one of the most powerful ways families can save for the cost of higher education. Just imagine never paying taxes on any profits from savings used for higher education, then finding out the image is real.

The problem — the cost of higher education.

A child born today can expect to pay over \$144,000 for a public college and \$297,000 for a private college education, according to The College Board, Trends in College Pricing. Although we cannot predict future increases, over the last five years those costs have increased approximately 40 percent and 25 percent, respectively.

The solution — a 529 college savings plan.

Just a quick background on 529s and how they work. Virtually every investment solution entails a series of taxes on interest, gains, dividends and the like. 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. Qualified expenses include tuition and fees, books, equipment and supplies required for a student's field of study, and room and board. Don't lose sight of what types of schools higher education includes: undergraduate, graduate, law, medical and (get this) even some golf schools!

The current contribution limit per year is \$12,000 per beneficiary. A single contribution, totaling \$60,000 per beneficiary, is permitted as long as no further contributions are made by that donor to the same beneficiary until the sixth year following. If the savings are used for higher education the entire amount can be withdrawn free of taxes. If the savings are used for other purposes the profits are taxed and assessed a 10-percent penalty. If a student is fortunate enough to receive a scholarship, there are no penalties on withdrawals of the same amount.

How powerful is the 529? Just imagine a grandmother and grandfather who strongly believe in education. Each makes \$60,000 contributions as follows: their own 529, four children, 16 grandchildren, 64 great-grandchildren and even their gardener's three children. In total, they contribute over \$5.3 million and remove the same amount from their estate. 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.

Since 529 plans are established at the state level and anyone can establish a plan from any state, resident or non-resident, there are quite a few plans from which to choose. Some states offer advantages over others.

New Jersey's 529. The New Jersey (NJ) 529 college savings plan, run by investment firm Franklin Templeton, is the only 529 plan in the country to offer a tax free scholarship in addition to shielding investment returns from taxes. The scholarship is based on the student attending an accredited college in New Jersey, not academic merit. Either the student or the owner of the 529 plan must be a resident of New Jersey. The plan offers increasingly larger scholarships based upon how long you save, up to a maximum of \$1,500 for over 12 years of saving. Scholarships may not exceed the student's actual cost of attendance.

The NJ 529 offers one of the highest contribution limits of any plan in the country, \$305,000 per beneficiary. Just to be clear, that is the contribution limit — not the value of the account. Many states cap their contribution limits at \$250,000. Investments inside of the 529 include age-based and static portfolio options. One of the key benefits of an age-based portfolio is the reduction of portfolio risk as the student approaches his or her attendance date.

The action step to take — open a 529.

Contributing to a 529 immediately stops the taxation of any profits if the money is used for higher education, 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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