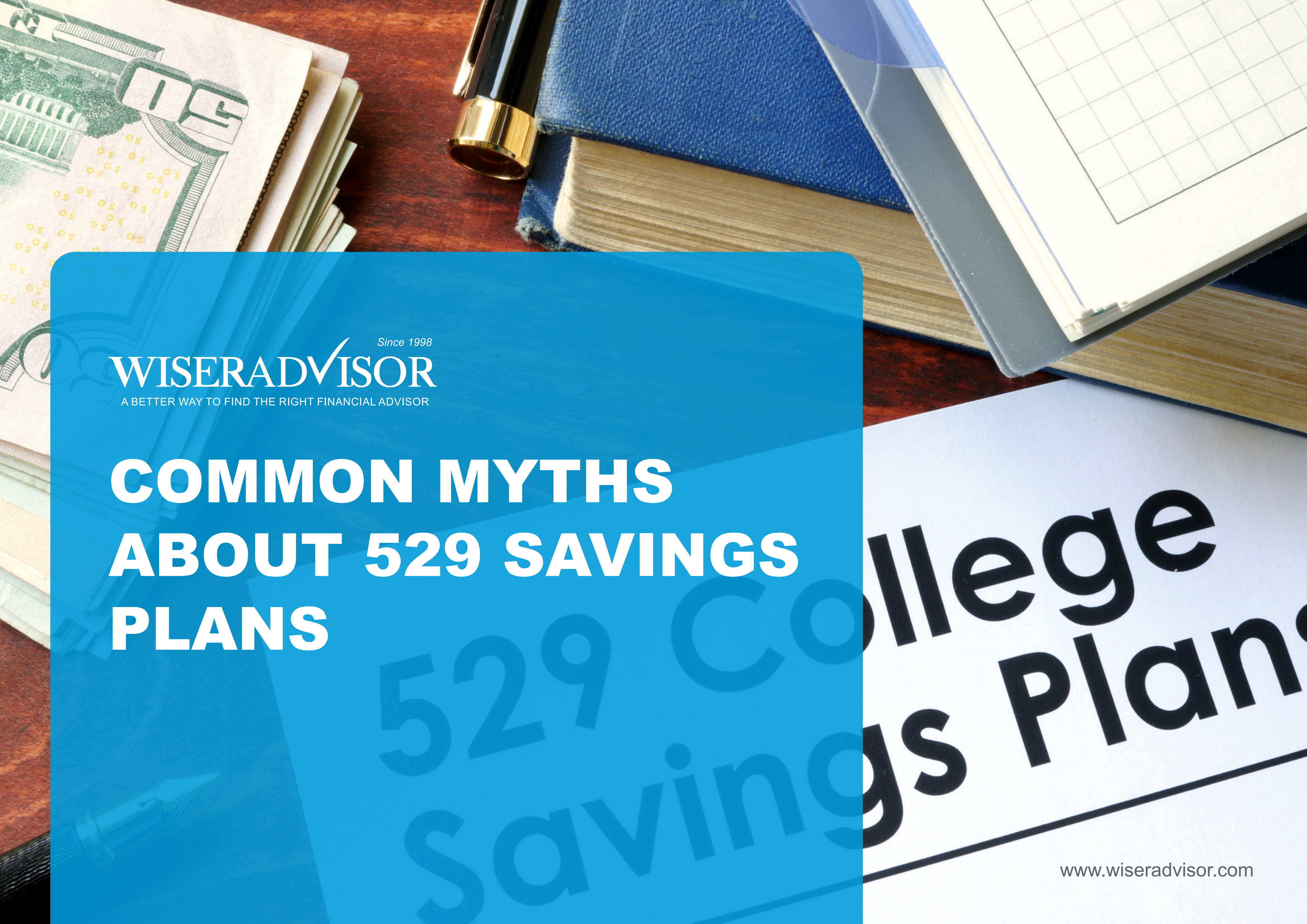

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COMMON MYTHS ABOUT 529 SAVINGS PLANS

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Did you know that better education planning can increase the contributions for retirement savings?

Starting the process of education planning is fairly simple. But as we progress, we tend to face certain obstructions and constraints that delay our objective timelines. Very often, systematic planning and awareness of the right methods of saving can help overcome obstacles in investing and generating funds.

However, the problem arises when we are confronted with certain myths about education planning and retirement. Being able to differentiate between what is right and what is not, is essential for a secure future. Here’s what you need to know.

An Outline of 529 Plans

Introduced in the year 1996, a 529 Education Plan offers premium help to citizens to save up for their children’s’ higher education fees. The plan involves contributions that are excused from federal taxes. In fact, each state has its own contribution limits for the 529 plan. The deductions, on the other hand, can be surpassed to the following years, in case it exceeds the maximum limit. The withdrawals from the plan are tax-free for education costs and can be used for expenses such as tuition fee, room expenses, and textbooks, etc.

As convenient as the 529 plan is, it is still surrounded by many myths. For example:

Myth 1: I Can Open the Account Only in the State Where My Child is Getting the Education

Truth: Even though 529 plans are enforced by state laws, it doesn't mean that you need to open the account in the same state where you reside. In addition to this, it is also not mandatory to let your child study in the state you are planning to avail the plan in. For instance, you can open a plan in Virginia even if your child is planning to study in California. You have the authority to choose the plan and state of your choice since each state has a different sets of guidelines for the 529 education plan. Keep in mind that various states offer tax deduction, so make sure to familiarize yourself with your native state's plan.

As of now, 35 states provide a sta te tax deduction on 529 plans, including the District of Columbia.

Myth 2: There are Limited Investment Options in 529 Plans

Truth: There are plenty of investment options in a standard 529 education plan. The options are based on your preference and can include peripherals such as age-based investment or a self-customized contributions course. In the former, you can set your course with decreasing assets as the beneficiary approaches college education. The self-strategized investment, on the other hand, foresees a custom plan set on your individual portfolios.

Myth 3: The Plan Can Only Be Used For College Funding

Truth: The 529 plan can be used for many other purposes that exclude college education. You can utilize the withdrawals for various higher education expenses such as boarding costs, computers, tuition fees, etc. The savings can also be harnessed to pay k-12 tuition fees in which case, the limit is capped at $10,000 per year for each student.

Myth 4: There are Penalties If Your Child Wins a Scholarship

Truth: Having a scholarship does not totally bar you from using the 529 plans. If your child is eligible for a college scholarship, you can transfer the funds to another family member. There are no penalties or tax deductions on withdrawals of the payments. While taxes will apply to earnings, you can easily withdraw the principal amount without any penalties.

Myth 5: You Will Need a Lot of Money to Open the 529 Account

Truth: Since a 529 plan is focused on tax-free savings, it does not require you to invest a lot, to open the account. You can start investing with a minimal amount of just $50 through recurring contributions on monthly basis. You can even opt for a regular minimal payroll deposit with small amounts as low as $15 per month.

Myth 6: I Can Depend Entirely on the 529 Plan

Truth: Depending on a 529 plan for all educational expenses of your child may not be the best idea. However, this doesn’t mean that your savings plan should remain deprived of the intended goal. You can look up to other options such as, financial aid that can help bring ends near. By using price calculators, you can estimate the expenditure on school education based on your income. You can then look forward to extracting maximum benefits from the financial aid provided by the government. Not relying on the 529 plan and having different possibilities in the bag can help create a reasonable course of action.

Myth 7: There is a Time Limit for Starting the 529 Plan

Truth: You can start the education savings plan as soon as your child is born. However, if you skip the early years, you can still consider the plan at a later stage. This can be done with no potential conflicts. You can enrol for the plan when your child is entering high school or even later. While the relaxation in time limit helps many families, starting the plan early gives you the chance to save more. This is because when you start early, you can plan on small and steady contributions that sum up to a bigger amount when your child finally enters college.

Myth 8: The 529 Plan is My Only Option

Truth: A 529 plan is a good choice, but it is not the only option at your disposal. Individual Retirement Accounts are an ideal substitute for the 529 plan. These also come with deductions that are exempted from tax. Another option is the Coverdell Education Savings Account that offers tax-free withdrawals for fitting education expenses. However, do keep in mind that unlike the 529 plans, these options have strict limitations. For example, IRA withdrawals are subject to taxes, except the Roth IRAs pertaining to conditions of the 5-year time frame and a minimum of 59 ½ years of age.

The Coverdell account, too, has a limit of $2,000 per year, for contributions, and you can only use the money before the age of 30. This signifies the flexibility and simplicity offered by 529 plans, which also accounts for their popularity in education planning.

Myth 9: Opening a 529 Account is a Complicated Process

Truth: The process of opening an account is as easy as ABC. One can register online, using the government authorized documents of the child. It is easy to enrol, and the benefits are fairly simple to understand.

Summary

Before enrolling in a 529 plan, it is important to know the investment objectives, expenses, and misapprehensions associated with the initiative. Making yourself cognizant about the myths not only helps in understanding the salient features of the plan, but also brings down the curtain on many uncertainties.

Are you considering to invest in a 529 plan? Start by gathering a good knowledge base on it before taking the step. Let financial advisors help you out with their effective guidance and services.

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