MENU



# 10 hidden benefits of 529 plans

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While most people are catching on to the appeal of 529 plans, which offer tax-advantaged investments to pay for qualified education expenses, many still overlook a number of benefits these accounts provide.

"This is the best way to save for a child or grandchild's education, period, end of sentence," said Young Boozer, chairman of the College Savings Plans Network and state treasurer of Alabama.

As the cost of higher education continues to skyrocket, 529 plans can be a lifeline for parents and grandparents. "Many people don't realize how much flexibility a 529 plan gives them or the advantages it offers beyond the tax-deferred growth of the investments," said Steven Brett, president of Marcum Financial Services.

According to Brett, here are the top reasons a 529 college savings account is increasingly worthwhile.


Jessica Dickler | @jdickler
2 Hours Ago

## 1. You get a tax break

You can get a tax deduction or credit for contributions to a 529 in many states, earnings grow on a tax-advantaged basis and, when you withdraw the money, it is tax-free if the funds are used for qualified education expenses.


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## 2. Yes, cooking schools count

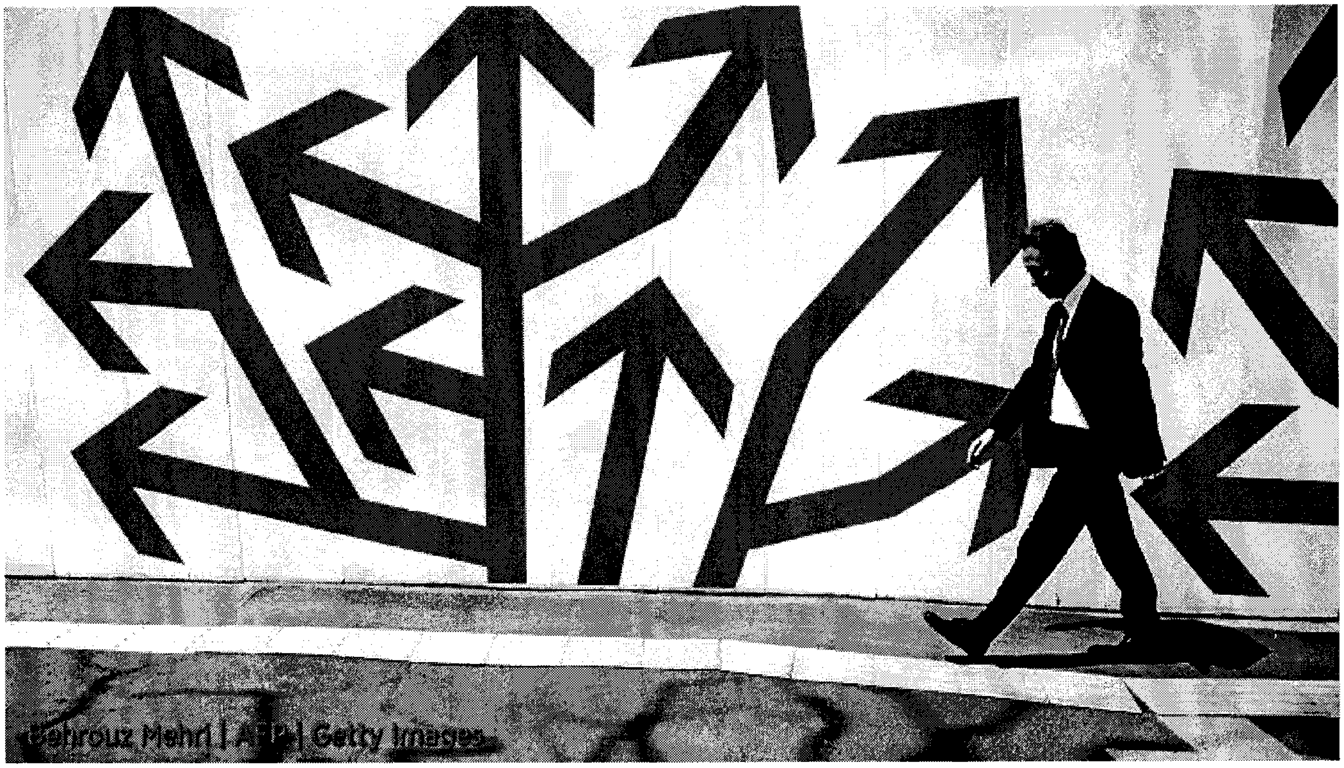
What counts as a qualified education expense is extensive; 529 plans can be used for undergraduate or graduate school, technical or trade schools, even cooking schools or golf schools in the U.S. and some accredited schools abroad. You can also use them to pay for room and board, fees, books, computers or other supplies.


## 3. You can shop around

You are not limited to your home state's plan, which means you can choose any state's 529 — after factoring in fees and the performance of the investments. However, you may only be eligible for a tax deduction if you choose the plan offered in your state. "You have to weigh that against the amount of fees and investment options in the long run," said Brett.


## 4. The more, the merrier

There is no limit on the number of 529 plans you can hold at one time. That means if you've already picked a plan in your state, it's not too late to find a plan that suits you better. You can open multiple accounts in multiple states without ever having to combine or consolidate them.




## 5. You can choose the investments that work for you

These plans offer a variety of investments, including mutual funds, exchange-traded funds and fund of fund portfolios. Most plans offer risk-based or age-based options, similar to target-date funds in a 401(k).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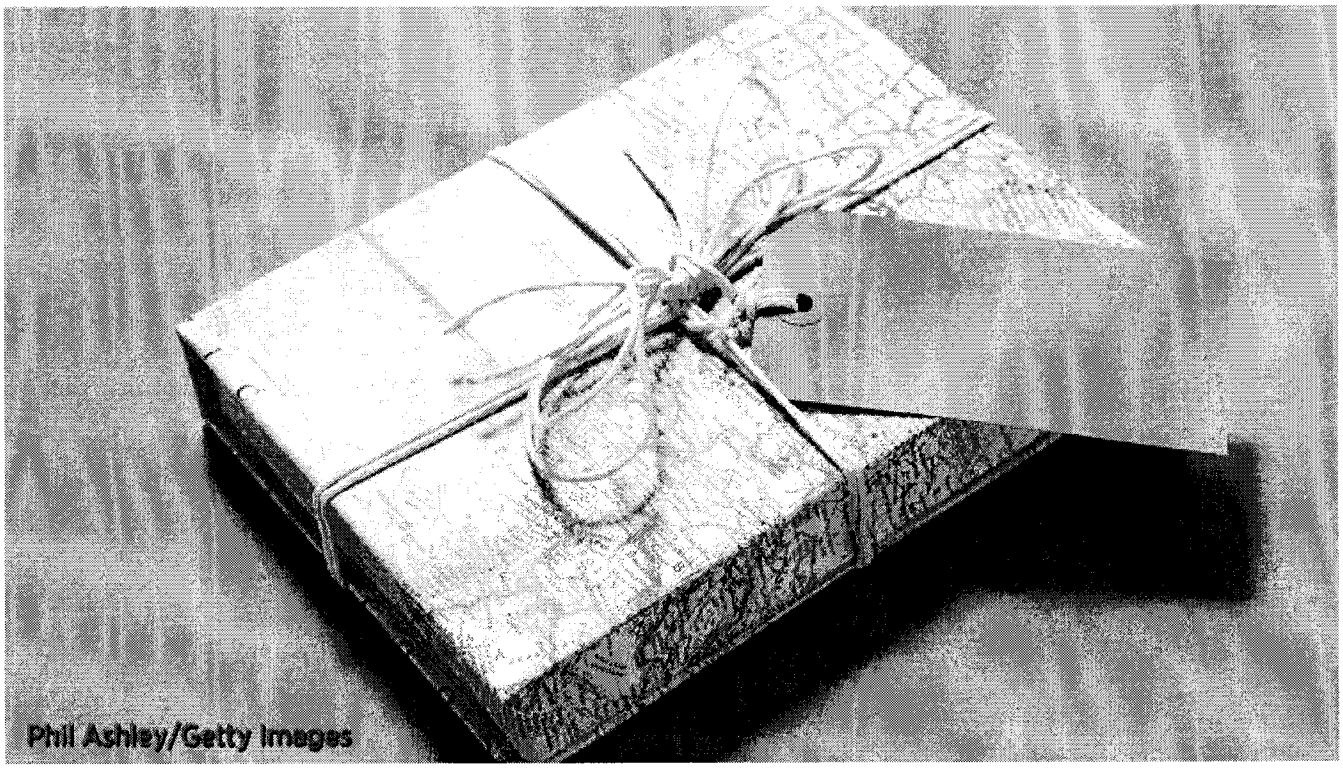
## 6. Yes, Aunt Tilly can contribute

Anyone can make a contribution (although state laws vary on whether you can get a tax break). "We encourage people to let their friends and family know they can make a contribution," said Boozer. "It's a great gift and you don't have to worry about the color, size or fit."




## 7. Generous limits

While there are state-set limits on how much you can contribute in total to a 529 plan, the threshold is high.In many cases, you can make contributions until the balance reaches close to $400,000. These contributions also qualify for a gift-tax exclusion. And there are no income restrictions as there are with other types of savings accounts.

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## 8. You can front-load contributions

Furthermore, five years' worth of gifting — up to $70,000 for an individual or $140,000 per couple — can be front-loaded and saved for a beneficiary tax-free, provided there is no other gift given in the same time frame. The big advantage here is that you reap the benefits of compounding. "Compound interest is the eighth wonder of the world," said Boozer.


## 9. The accounts won't expire, even if you do

It's not a "use it or lose it" account — 529 owners can change their beneficiaries at their own discretion and without limitation. For example, if one child doesn't use all or any of the funds in the 529, then the account can be put in the name of a sibling or other family member. These accounts never expire, so those assets can even be passed down to other generations, from child to grandchild to great-grandchild.


## 10. No genius penalty

In the fortuitous case that your child gets a full ride or receives a partial scholarship, the amount equal to the scholarship can be withdrawn without penalty. However, you may owe taxes on it.