

COMMON QUESTIONS ABOUT 529s AND SAVING FOR COLLEGE

Q: What is the difference between a 529 plan and UTMA/UGMA?

A: If saving for college is the goal, a 529 provides the tax-free growth and withdrawals assuming the funds are used for qualified education expenses. By comparison, there's no special tax benefit for spending money from a UTMA account on education. Regardless of how the UTMA beneficiary chooses to spend the funds within the account, they will be subject to income taxes.

The only big difference is control. With a UTMA, the money is considered the child's asset, but with the 529, the money is considered a parental asset. Upon the minor turning age 21, assets in an UTMA are irrevocably transferred from the donor to the minor. A 529 plan allows the parents (assuming they are designated as owners) to transfer accounts to other, related beneficiaries (such as siblings) if there are additional funds available that are no longer needed by the child for college.

Another consideration is the investment options. 529 plans are generally offered at the individual state level and each state's plan limits the investment choices, typically to a few "model portfolios," such as aggressive growth, moderate growth, moderate, moderately conservative and conservative. Although these include both stock market and fixed income investments they are still limited to the number of pre-set choices. UTMA's, on the other hand, are completely open to investments of all different kinds, similar to a typical brokerage account or IRA.



Q: What is the maximum I can contribute to a 529 in a single tax year without incurring a gift tax?

A: In 2017, you can contribute up to \$14,000 and qualify for the annual federal gift tax exclusion. If you are so inclined, you can "front-load" the gifting contribution up to \$70,000 (\$140,000 for joint gifts) to a 529 account in a single year, as long as you make a special election to spread the lump-sum gift over five years while giving no other gifts to that beneficiary in that same time period.

Q: What happens to the 529 if my child gets a scholarship?

A: The 10 percent penalty on account earnings for non-qualified distributions from a 529 does not apply if the withdrawal is due to the beneficiary receiving a scholarship, death or disability, or if the beneficiary decides to attend a U.S. Military Academy. There's also the option of renaming the beneficiary to other children or grandchildren.



Q: How much should I save?

A: The cost of college appears to be ever increasing. The 2016-2017 average tuition and fees for one year of college, according to the College Board, is \$24,930 for out-of-state residents attending a public university, and up to \$33,480 for private universities. Add on room and board and the average cost increases by over \$10,000.

Let your income dictate savings over time. The key is to start early and save every month, and make smart investment decisions within the account. And remember, friends and grandparents can contribute as well. Take advantage of this on special occasions when asked for gift ideas for your little one.

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