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A monthly savings tip from the American Savings Education Council (ASEC)—May 2013

College “Education” – Saving For College

Saving for college—particularly if the enrollment date is years away—can be complicated, since you don't really know how much it's going to cost. Cost can be driven by a number of factors: whether the institution is public or private, which state it is in (and whether you are a resident of that state), and each school has different policies (and costs) about things like meal plans, student vehicles, and even how the dorms are furnished.

A recent report by the Government Accountability Organization (GAO) notes that paying for college is becoming more challenging, and that a college savings plan can be an option to help meet these costs.

To encourage families to save for college, earnings from 529 savings plans—named after Sec. 529 of the Internal Revenue Code—grow tax-deferred, and are exempt from federal income tax so long as they are used to pay for qualified higher education expenses. Managed by individual states, over one hundred 529 plan options were available to families nationwide as of July 2012.

Here are some reasons to consider using a 529 to save for college:

- Your investment grows tax-deferred, and when you withdraw money to pay for the beneficiary's college costs, no federal income tax is due.
- Your own state may offer some tax breaks as well (such as an up-front deduction for your contributions or income exemption on withdrawals), in addition to the federal preferences noted above.
- You, the donor, stay in control of the account: You decide when withdrawals are taken and for what purpose (note, however, that “non-qualified” withdrawals (not for higher educational purposes) may be subject to tax and certain tax penalties).
- The ongoing investment of your account is handled by the plan, generally managed either by the state treasurer's office or by an outside investment company hired as the program manager.
- You can change the beneficiary to another qualifying family member at any time and avoid (or at least delay) taking non-qualified withdrawals when the original beneficiary doesn't need those funds.



Ask any parent: Time has a way of slipping away from us, and tomorrow is always closer than it seems.

More information about 529 College Savings plans is available in the GAO report at www.gao.gov/assets/660/650759.pdf, and also at www.savingforcollege.com