THE BEST WAY TO SAVE FOR COLLEGE

Saving for a child's college education is one of the top priorities for parents and grandparents. With college costs skyrocketing, it's time to get serious about how to save. Our college savings guide will start you on your way to building a better college savings plan.

NEXT GENERATION

Educating the next generation to be financially smart

THE BEST WAY TO SAVE FOR COLLEGE

529 college savings plans were created to incentivize college savings over time, and there is a wide array of plans available because most states and some private institutions sponsor their own. They all work similarly and have three key benefits:

- Contributions grow tax-free if used for qualified education expenses
- Many states provide tax deductions (or credits) as an upfront incentive to contribute
- Dollars in a 529 plan are normally outside of the owner's taxable estate, but you may continue to have control over the beneficiary and how the dollars are invested

Rising Costs of College:

It's no secret that the cost of college has skyrocketed along with the amount of outstanding student loan debt. No wonder. This chart illustrates the hypothetical cost of 4 years of college (tuition, fees, housing, and food) assuming a 5% college cost inflation rate for a child born in 2025.

COST OF COLLEGE OVER 18 YEARS

	Public: In-State	Public: Out-of -State	Private
Today's Annual Cost	$24,920	$44,090	$58,600
Future Annual Cost	$59,973	$106,108	$141,028
Future Total Cost	$258,491	$457,338	$607,848

Source: College Board Trends in College Pricing (2024)

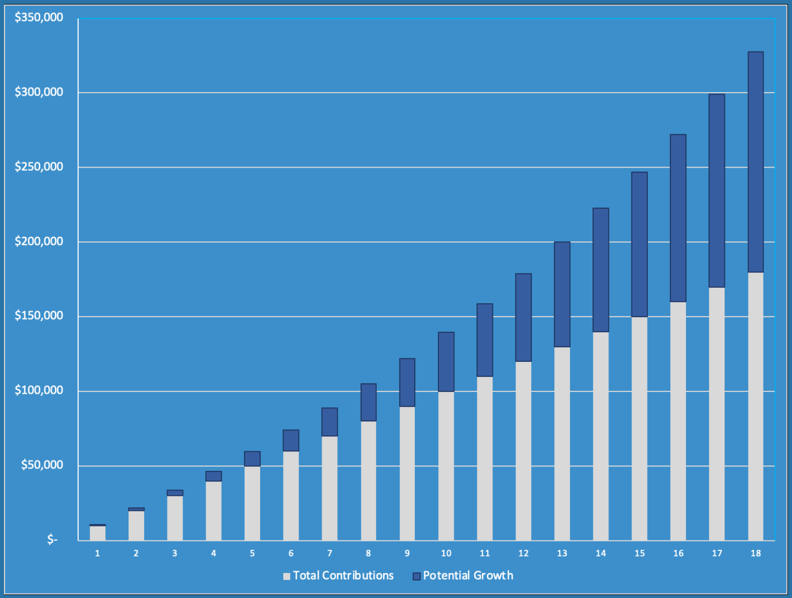
529 SAVINGS PLAN

Most 529 college savings plans work like an investment account. Your contributions are added to investments you select, and those dollars have the potential to grow over time.

Many states provide an upfront incentive for contributions in the form of a tax deduction or credit, and any investment growth, if used for qualified expenses, is free from tax.

Qualified expenses include tuition, room, board, books, and supplies at almost any college or university in the United States and some abroad. 529s can even be used for graduate school or, to a more limited extent, K-12 private school.

529 Savings Plans allow for significant contribution amounts; however, annual contributions above $19,000 per person, per beneficiary can require a gift tax filing.



The good news is a special rule allows a large lump-sum deposit of up to 5 years' worth of annual gifts or $95,000 based on 2025's $19,000 annual gift tax exclusion.

529 plans are considered an asset of the account owner, typically a parent or guardian, who holds the account for the student beneficiary. While 529s can affect financial aid eligibility, they generally have a low impact compared to other types of assets owned by the student.

529 investments are subject to risk and may lose value. Many 529 plans make the investment selection process easy by offering target date funds based on the student's age or college enrollment date. The illustration above shows the hypothetical tax-free growth of a 529 account when used for qualified expenses, based on 18 years of $10,000 contributions and a 6% rate of return.

529 COLLEGE PLANS

HOW MUCH SHOULD YOU SAVE?

A good rule of thumb is to use a 529 plan to save 75% of the expected cost to avoid over-funding. The 25% coverage gap could come from current cash flow, scholarships, loans to the student, or other savings.

CAUTION:
Withdrawals from a 529 plan not used for qualified education expenses incur a 10% penalty plus income tax on the gains. You can change the beneficiary of the plan to another family member to avoid the taxes and penalties, but there are strict rules that must be followed. (See: Things You Didn't Know)

HOW GWS CAN HELP YOU?

Exactly how much you should save can only be determined by considering many factors including what type of college education you'd like to fund, how much financial aid the student may receive, and the current age of the student. Your GWS advisor will help you evaluate your options and select the plan that makes the most sense for you. Call us at 703-534-4444 to learn more.

ESTATE PLANNING OPPORTUNITY

(HINT: Great for Grandparents)

529 plans are a wonderful estate planning tool because the dollars are outside of your estate, but you can maintain control over the investments and who is named as the beneficiary. This opportunity does not exist elsewhere in the estate planning toolkit. But be careful; grandparent-owned 529s and parent-owned 529s may be treated differently for merit-based aid purposes, so careful coordination of withdrawals is required. Beginning with the 2024-2025 academic year, distributions from grandparent-owned plans will no longer affect the student's eligibility for need-based financial aid.

Maximizing Your Contributions:

Depositing a large lump sum equal to five years of gifting is a great option for those who want to move a sizable portion out their estate today and provide for younger generations while maintaining some control.

Annual Gift Tax Limit (2025)	Maximum Without Gift Tax Implications
$19,000 or $38,000 if married	$95,000 or $190,000 if married

THINGS YOU DIDN'T KNOW:

- DANGERS OF BENEFICIARY CHANGES: Rules need to be followed to ensure that a beneficiary change does not trigger a gift tax issue. The new beneficiary needs to be in the same or higher generation as the original beneficiary and be part of the same family, as defined by the IRS.
- SCHOLARSHIP OFFSETS: If the student receives a scholarship, the amount of the scholarship usually can be withdrawn from the plan without incurring a penalty. However, tax may be due on earnings.
- OTHER USE OF FUNDS: New tax rules allow 529 distributions to pay for up to $10,000 per year of K-12 tuition for each beneficiary. Plus, up to $10,000 per lifetime can be distributed tax and penalty-free for student loan repayments.
- TRANSFER TO ROTH: You may be able to move 529 plan money directly into a Roth IRA. You must meet several conditions related to account titling and the age of the plan. Annual contribution limits apply, and the lifetime transfer amount is limited to $35,000.
- TOO BIG?: Most plans allow the balance to grow to $300k or more before contributions are restricted. However, most plans don't consider contributions to plans in other states.
- IT PAYS TO SHOP: In a 529 savings plan, fees could eat away at the investment return over time.
- OUT OF STATE: You are not restricted to using the plan in your state of residence. However, your state may offer a tax incentive to contribute to the in-state plan. 529 funds are not restricted to schools in your state.
- DUAL DEDUCTIONS: Parents may benefit from opening separate 529 accounts. For example, a Virginia couple with two children could qualify for a $16,000 deduction by opening four accounts of $4,000 each.
- GIFT TAX: Speak with a tax professional, as gift tax filings may be required for contributions exceeding $19,000 per year.

GWISDOM

GWisdom was developed for our clients to help them have a better understanding of financial issues that affect them. It represents the way we think about investments, retirement, advanced strategies and much more. You won't find tedious white papers or financial jargon here. Just short videos, helpful guides, and other useful resources designed to give you the insights you need to invest smarter, plan better and know more.

- LIVING WELL IN RETIREMENT
- SMART INVESTING
- ESTATE PLANNING
- MANAGING LIFE'S RISKS
- NEXT GENERATION

About Glassman Wealth Services

"That's refreshing…"

"Refreshing" isn't a word many people associate with a wealth-services firm, but it's how our clients describe us. Because we approach things differently. Because we're not afraid to be candid. Because we manage over $2 billion* in assets, yet remain a resolutely boutique firm offering personalized service. And because despite the significant industry recognition we've achieved**, we still care more about the reputation we've earned with our clients.

**As of 02/29/2024*

***See disclosures at: https://www.glassmanwealth.com/important-disclosure-information/*

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