



529 Plan Guide for Education Savings

Professional Advisory Services, Inc.
2770 Indian River Blvd., Suite 204
Vero Beach, FL 32960
(772) 778-0552

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What are 529 Plans?

- 529 plans are tax-advantaged saving plans designed to help pay for K-12, college, and apprenticeship educational expenses
- They are often established by parents or grandparents on behalf of the beneficiary – usually their child or grandchild
- There are two types of plans:
 - 1) College Savings Plans:** Invest after-tax dollars into 529 account and select from list of investments
 - This the most common type of 529 plan
 - Unless otherwise noted, all details in this presentation refer to College Savings Plans
 - 2) Prepaid Tuition Plans:** Lock in tuition at current rates for a student who will one day attend college. These are offered in a limited number of states and at some higher education institutions, and have more restrictions on qualified expenses

529 Plan Benefits

- **Tax-free withdrawals:** No withdrawals (including growth on investments) are subject to taxes if used for qualified educational expenses for the beneficiary
- **Tax deductions:** Over 30 states let you deduct 529 plan contributions on your state income tax return if you use your state-sponsored plan
 - There are [nine](#) states that offer state income tax benefits for contributions into any state's 529 plan
- **Transferability:** The owner may transfer the plan to another beneficiary (eligible family member) once per year
- **Roth IRA Rollover:** Eligible 529 plan dollars can be transferred to the beneficiary's Roth IRA without tax consequence
 - To be eligible, the 529 plan must be open for at least 15 years. Contributions into the 529 plan that were made within the last five years are not eligible to be transferred to the Roth IRA. On an annual basis, the amount that can be transferred into the Roth IRA cannot exceed the maximum Roth contribution limit. The total lifetime rollover amount is capped at \$35,000

Find the Right 529 Plan

- Some states offer benefits for their residents. Check your state's 529 plan offerings [here](#)
- You are not required to invest in your state's 529 plan.
 - Your state may not offer any tax breaks, include only expensive funds, or offer funds with underwhelming performance
 - Compare the available 529 plan options [here](#) to determine which state is right for you
- Savingforcollege.com, an independent resource provider for parents and financial professionals, provides ratings for all state-sponsored programs [here](#)

Investing in 529 Plans

- 529 plans can offer a variety of investment options, including:
 - Exchange-traded funds (ETFs): Passively-managed basket of securities traded throughout the day
 - Mutual funds: Actively-managed basket of securities traded at the end of the day
 - Target date funds: Actively-managed portfolios that automatically adjusts asset allocations based on beneficiary age
- You can view your state's investment options [here](#)

Are There Other Options?

State-sponsored plans are not the only 529 plan options available:

- One of the lowest-cost options is [Vanguard's 529 Plan](#)*
- Vanguard allows you to customize your asset allocation or select target date funds for professionally-managed portfolios
- Vanguard's investment options include its premier S&P 500 index fund (VOO) and its Total Bond Market index portfolio (BND)

*We have no affiliation with The Vanguard Group and receive no kickbacks, commissions, or any other forms of compensation in any capacity. This recommendation is based solely on our independent and unbiased research. Clients should refer to The Vanguard Group's disclosures for additional information on their products and services.

Other Good to Know Items

- **Funding:** Each donor may contribute up to the maximum gift allowance per year per beneficiary without requiring a gift tax return
 - \$18,000 for individuals and \$36,000 for couples
- **Superfunding:** Each donor may also contribute up to 5 years' worth of contributions at one time per beneficiary (you must file [Form 709](#) annually for each of the 5 years)
 - \$90,000 for individuals and \$180,000 for couples
- **Invest early and often:** The longer assets can grow tax free, the better!
- **Check for hidden fees:** ETFs and mutual funds have “expense ratios,” which are fees paid to the managers of the funds. These fees are deducted from the price of the fund and are not reflected in your account statements. Be sure to check fees before investing!
- **The earnings portion of any withdrawals used for non-qualified expenses** are subject to federal/state taxes and a 10% withdrawal penalty. You can view qualified expenses and penalty details [here](#)

Are 529 Plans Right for Me?

- We are unable to offer 529 plans and cannot manage the plan assets, but we are happy to provide independent and unbiased guidance
- Please reach out to any of our portfolio managers if you any questions or would like us to review your current 529 plan

Disclosure: On occasion we are asked to offer an opinion on an investment that is not part of the PASI core stock portfolio. While we provide this service on a complimentary basis for Professional Advisory Services, Inc. clients, it is understood that it is not feasible for us to dedicate the time and resources to such analysis that we devote to our core stocks. Nor can we monitor such investments for evolving issues or new developments. As such, neither Professional Advisory Services, Inc., nor any of its employees assume any liability for client or non-client investment losses that may result from action taken based on the contents of this report.