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Saving for College – 529 Savings Plan

The Bureau of Labor Statistics lists the unemployment rates by educational attainment. For the year 2016 the mean unemployment rate for persons 25 and over was 4%. Looking more closely at the unemployment rate based on education level achieved, things appear a little different. The rates range from 7.4% unemployment for those with less than a high school diploma to 5.2% for those with a high school diploma and 2.7% for those with a bachelor's degree. The higher the education level achieved, the lower the unemployment rate, and higher education levels are also associated with higher wages. This does not take into consideration technical training programs for the various trades, etc., which can be equally as valuable. Not everyone wishes to attend college.

Educating our children and grandchildren is one the most important aspects of a financial plan. Preparing ahead can save many headaches later on. There are a number of vehicles that can be used to save for college. An excellent resource and guide to help plan for college and find the best 529 Savings Plan is www.savingforcollege.com.

529 Savings Plan (continued from page one)

- Appreciates tax-free if used for qualified education expenses. Check with your broker to see what 529 plan they offer and the variety of portfolios available to choose from. Generally, when the future student is very young a more aggressive portfolio is appropriate, and as the child gets closer to entering college switching to a more conservative portfolio is appropriate. Check with your broker for their 529 plan rules.
- Individuals can contribute up to \$14,000 annually, without any gift tax issues under current law (2017), and the contribution can be prorated over 5 years. This means, in one year, \$70,000 can be contributed by one individual (\$14,000 x 5). Furthermore, if a couple elects to do gift splitting they can contribute \$140,000 (\$70,000 x 2) in one year.
- The account owner controls the assets and the beneficiary can be changed. The assets are not counted as the students for financial aid.

There are other benefits and a few disadvantages, such as a 10% penalty on earnings in the 529 plan if the funds are not used for qualified education expenses and the earnings are included in gross income.

Update for 2018 - The Tax Cuts and Jobs Act (TCJA) will expand the benefits of the 529 savings plan to allow up to \$10,000 per year to be used for private or religious school tuition for grades K-12. Also, the annual gift tax exclusion in 2018 is \$15,000 vs \$14,000 in 2017.

To be covered in future issues—Coverdell Education Savings Account (ESA), Series EE Savings Bonds, Uniform Gift to Minor’s Act (UGMA), Uniform Transfer to Minor’s Act (UTMA) and Financial Aid.

"An investment in knowledge pays the best interest." –Benjamin Franklin

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