

529 Plan a Must For College Savings

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Besides the purchase of your home, sending a child to college is one of the biggest expenditures you'll ever have. According to savingforcollege.com the price of a college degree for a child born today will be \$312,166. That's a significant investment for any family, so it is important to start saving now.

One way to save is by investing in a tax-deferred 529 plan (also called a Qualified Tuition Plan). With a 529 plan, all funds grow free of federal and state income tax. With tax-free growth, money saved for college accumulates faster. When it's time for college, withdrawals are exempt from federal taxes when used for qualified educational expenses.

There are two types of 529 plans: prepaid and savings plans. With a prepaid plan, you enter a contract to save a specified amount to lock costs at a specified college at today's prices (the Illinois plan covers tuition and mandatory fees). Prepaid accounts may transfer to out-of-state schools under certain conditions.

You can purchase as little as one semester's coverage and pay for it with a lump sum or on an installment basis. Most state plans require either the owner or beneficiary of the plan to be a state resident.

With the savings plan you can start small and save at your own pace. Because your contributions are not part of a contract, however, they don't lock in today's college prices. Savings accounts can, however, cover any qualified higher education expenses including books, supplies, and room and board. Money can be used at accredited colleges throughout the country. There are also many different investment options available that you can choose from.

While many states offer 529 programs, the Illinois College savings program has additional benefits for Illinois residents. Under some conditions, qualified 529 contributions can be deducted in computing Illinois taxable income, up to a maximum of \$10,000 per year for an individual taxpayer. Furthermore, unlike other college savings programs, 529 plans do not impose income limitations on those who wish to contribute. Also, grandparents can contribute to a 529 plan as well.

To stretch your education dollars further, investigate the potential income and gift tax advantages of a 529 plan. Your financial adviser can provide additional details and help you choose a plan designed to fit your needs and investment strategy.

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