WealthRx
wealth and wellness tips to help you live better
May 2017
Wm WEALTH MANAGEMENT

# Saving for Higher Education with 529 Plans

Anticipating the day your child leaves for college likely brings a wave of mixed emotions—perhaps pride in his or her achievements, sadness at him or her leaving the nest, excitement about a cleaner house and smaller grocery list and concern at the thought of paying for college expenses. For the final point, at least, 529 plans, also known as qualified tuition programs, may be able to help you turn some of that anxiety into peace of mind.

## What is a 529 plan?

Though "Qualified Tuition Program" (QTP) is the legal name of the plan, it is commonly referred to as a 529 plan because QTPs derive from section 529 of the Internal Revenue Code. 529 plans provide a tax-advantaged method of saving for future college expenses, either through prepaying tuition or through investing.

There are two types of 529 plans: college savings plans, which are operated by the state, and prepaid tuition plans, which may be operated by either the state or a qualified educational institution.

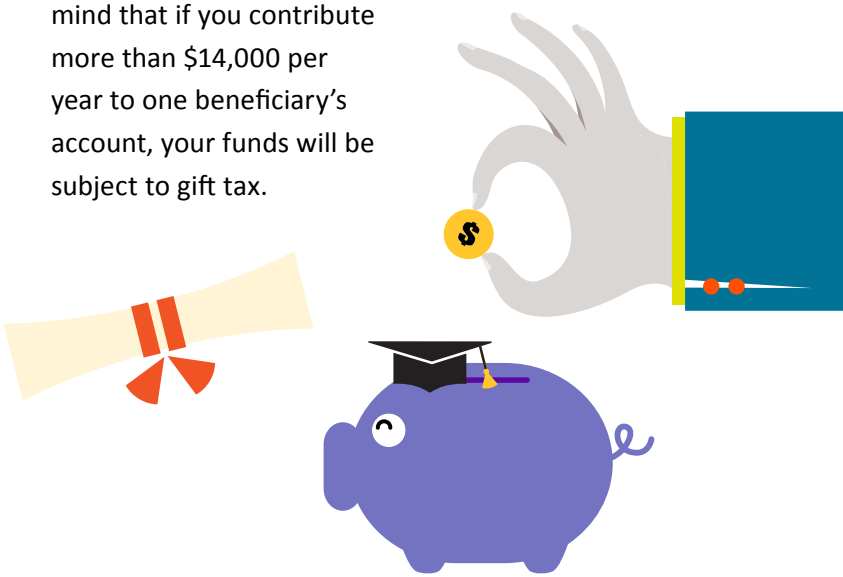
Prepaid tuition plans are much less common, but allow account owners to guarantee (provided the state guarantees the plan) that their funds will increase in value at the same rate as college tuition. In a prepaid tuition plan, account owners' funds are pooled and put into long-range investments that will likely meet or exceed college tuition increases over the years.

College savings plans, on the other hand, give you the option to invest your money, and while you will want to choose investments that have the potential to stay ahead of the college inflation rate, there is no guarantee, as with prepaid plans, that the money you put in now will be enough to cover college costs in the future. However, college savings plans also offer the opportunity for greater returns. While most prepaid tuition plans require you to be a resident of the state offering the plan, college savings plans are generally open to both residents and non-residents.

## College savings plans

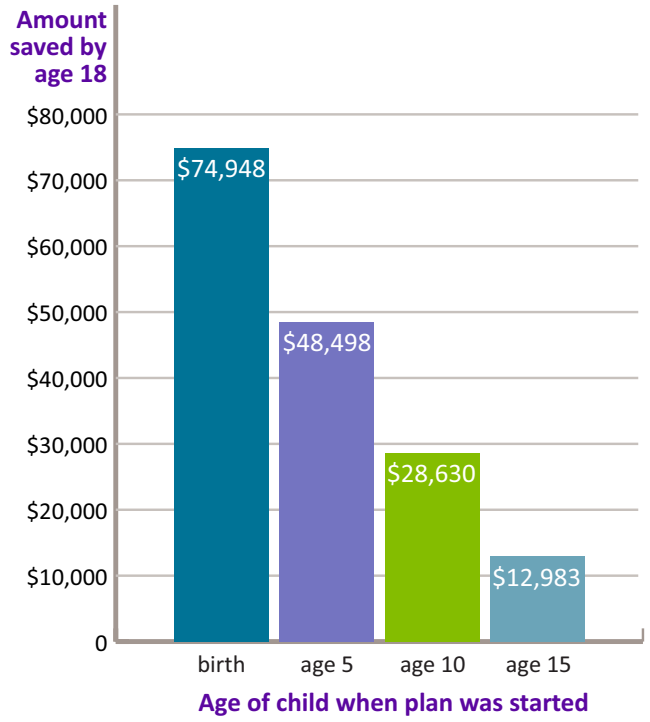
*Contributions*

Any legal resident over the age of 18 may open an account for a person of his or her choice as the beneficiary, including him or herself. In addition, the plan owner may change the beneficiary to another member of the original beneficiary's family at any time, for any reason. The plan is controlled by the plan owner (not the beneficiary), but anyone may contribute to the plan on behalf of the beneficiary. Contribution limits are based not on income, but on a set amount determined by each state as "the amount necessary to provide for the qualified education expenses of the beneficiary." Keep in mind that if you contribute more than $14,000 per year to one beneficiary's account, your funds will be subject to gift tax.



## Investing in a college savings plan

This chart demonstrates how much more you're able to sock away by starting a college savings plan while your child is still young, assuming you make an initial contribution of $5,000 and monthly contributions of $200.




*Assumes a 6 percent rate of return from birth to age 5, a 5 percent rate of return from age 5 to age 10, a 4 percent rate of return from age 10 to age 15 and a 3 percent rate of return from age 15 to age 18, compounded annually.*

## Investing options and concerns

The plan owner may choose to invest in a variety of options, including stock mutual funds, bond mutual funds and money market funds. Alternatively, the owner of the plan may opt for an automatic age-based investment, which gradually becomes more conservative as the beneficiary gets closer to college age (this type of investment can be seen in the chart above). While investment in a college savings plan offers the potential for a higher return than a prepaid tuition plan, it is important to note that growth at a rate of college inflation is not necessarily guaranteed, as investments are still subject to market risk.

As with any investment account, investors should examine their savings objectives and a 529 plan's risks, charges and expenses before deciding to use it. Account issuers must provide official statements detailing features of their 529 plan; check these statements for further information.

*Tax benefits*

There are several tax benefits that come with opening a 529 plan. Funds in 529 plans grow on a tax-deferred basis, and the disbursement of funds are exempt from tax if they are used for qualified education expenses such as tuition, room and board, fees, books, supplies and, added in 2010, the purchase of necessary computer technology and services such as a required laptop or internet access. If the funds are used for something that is not deemed a qualified education expense, however, the plan holder is subject to a 10 percent federal tax penalty on earnings, in addition to general income tax.

Many states offer their own incentives for opening a 529 plan through the plan owner's home state. For example, according to www.finaid.org, 41 states and the District of Columbia offer some sort of income tax deduction or credit or have no income tax at all: 4 states offer a full income tax deduction, 30 states and the District of Columbia offer a partial deduction or credit and seven have no income tax.

*Effects on financial aid*

Assuming the owner of the 529 plan is someone other than the beneficiary, a 529 plan is recorded as a parental asset on the Free Application for Federal Student Aid (FAFSA), which may be assessed at a maximum of a 5.64 percent rate when calculating the Expected Family Contribution (EFC). If a beneficiary is also the owner of the 529 plan, however, his or her financial aid eligibility becomes much more complicated because assets held by the beneficiary can be assessed up to a maximum of 20 percent when calculating financial aid. In any case, 529 plans will have an effect on the financial aid you are eligible for, so it's important to understand the specifics of your aid situation before opening a 529 plan.

# the April market

## at a glance

| U.S. Large Cap (S&P 500) | U.S. Mid/Small (Russell 2000 Index) | Foreign Large (NYSE International 100) | Bond Market (Barclays US Aggregate) |
|---|---|---|---|
| 2,384.20 | 1,400.43 | 5,197.20 | 2,007.89 |
| 0.91% | 1.05% | 0.84% | 0.77% |

April 2017 market data

## in action

- The number of Americans collecting unemployment hit its lowest point in 17 years, according to an April release from the Department of Labor.
- In a recent release from the Federal Reserve Bank of New York, 44 percent of recent college grads are "underemployed" when it comes to employment in their field. "Underemployment" is defined as jobs that do not typically require a college degree.
- Following months of rampant growth, fund managers are lowering their optimism on the markets. According to a study from Bank of America Merrill Lynch, roughly 83 percent of fund managers believe that U.S. stocks are overvalued.
- Panera Bread was sold to JAB, a holding company primarily based in Europe, for $7.5 billion. JAB also owns Krispy Kreme Doughnuts®, Einstein Bros® Bagels and Caribou Coffee®.
- Kitty Hawk, a company from Silicon Valley, intends to sell a "flying car" by the end of this year. The prototype of the vehicle was first revealed in April 2017.
- Unemployment in the United States dropped to 4.5 percent in March, the lowest since May 2007. Additionally, wages have grown by 2.7 percent since March 2016.
- JPMorgan reported $6.4 billion in net income in the first quarter of 2017, significantly exceeding expectations.
- For the first time since 2011, Morgan Stanley posted a higher total of trading bonds, currencies and commodities than Goldman Sachs.
- According to The Atlantic, there have been nine retail bankruptcies so far in 2017. Comparatively, there were nine in all of 2016.

# A visit to Hall High School in West Hartford

Our own Katerina Nikolaou recently spent time talking with the Hall High School Business Group. They had asked her to share how she decided to pursue a career as a Certified Financial Planner (CFP®) and how she got into the industry.


"I was inspired by the Hall High students I visited to use the opening piece on 529 college savings accounts in this newsletter," Katerina said. "The group has been learning about student loans, saving for retirement and budgeting. They expressed concern that when they attend college they will not have an understanding of student loans."

It's never too early to learn about managing your money. This group of young people is off to a good start in understanding just how important that is.

# May

## Is National Physical Fitness & Sports month

Did you know that regular physical activity increases your chance of living a longer, healthier life? It also reduces your risk for high blood pressure, heart disease and some types of cancer.

The Physical Activity Guidelines for Americans recommend that adults:

- Aim for 2 hours and 30 minutes of moderate aerobic activity each week. Moderate activity includes walking, dancing, swimming and raking leaves.
- Do muscle strengthening activities – like lifting weights or using exercise bands – at least 2 days a week.

Physical activity is for everyone. No matter what shape you are in, you can find activities that work for you.

Learn more at **0to60fitness.org**

planadviser's 2017 TOP100 RETIREMENT PLAN ADVISERS

Two years in a row

The "PLANADVISER Top 100 Retirement Plan Advisers" list is compiled from responses to the PLANADVISER Retirement Plan Adviser Survey. The list is drawn solely from a set of quantitative variables and information in the survey supplied by the advisers themselves. H&H qualified under the small team category which is an advisor with 10 or fewer team members. Go to **planadviser.com/Top100** for more information.

**About Hooker & Holcombe Wealth Management**

**Contact:**

**Jonathan Gruber, RICP®, AAMS®**
Director, Wealth Management
860.856.2128
JGruber@hhconsultants.com

**Katerina Nikolaou, CFP®**
Financial Advisor
860.856.2067
KNikolaou@hhconsultants.com

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