

Investing in Education through 529 Plans

00:06 Megan

Financial wellness includes the ability to manage money in a way that gives you peace of mind and empowerment to make your own choices. At Golden 1, we're here to help with unbiased financial guidance. As a not-for-profit member owned credit union, our main goal is to help you reach financial well-being. Join us as we discuss why financial knowledge matters and how to apply it to your financial journey. Together, we can be golden.

00:34 Barbara

Hello and welcome to the Golden 1 Financial Wellness Podcast. I'm Barbara,

00:39 Megan

And I'm Megan. We are from Golden One's Financial education team and we'd like to welcome you to this college savings episode where we will be discussing the benefits of 529 plans and why saving for college and educational expenses is important.

As parents, we all want the best for our children, and one of the most important investments we can make in their future is investing in their education.

However, college costs have been rising faster than inflation for many years, and the cost of attendance can be a significant financial burden for families. According to the College Board, the average cost of tuition fees and room and board at a private four year college in the U.S. is \$49,870. Planning ahead can help families avoid debt and reduce the financial burden of paying for education.

That's where 529 plans come in.

01:40 Barbara

So let's start by defining that. What is a 529 plan? It's an investment account specifically designed to help families save for higher education expenses such as college tuition, books, and room and board. It's a little bit similar to our 401k, if you're familiar how that works. It is a savings tool in which we pick investments to save for the long term.

Ideally, you would start with a 529 plan as soon as you can. So that the investment has time to grow. A lot of people start at 529 plan when they have a baby or when their kids are in elementary school because they know then the more they continue to contribute

and the more the money sits there, it continues to grow to hopefully have enough to cover tuition when they graduate high school.

02:38 Megan

Right. That power of compound interest.

02:40 Barbara

Mhmm- Exactly. The other thing that's great about 529 plans is that you can start at any time. So, kids don't have to be babies when you open a 529. They could be starting high school- you just may need to be a little bit more aggressive in contributions that you're putting towards the 529 plan so that you can have a significant savings.

529 plans are offered by each state in the United States. Every state has a unique 529 plan and some of those states have a tax deduction that's available. In California, we have the scholars share 529 plan, but unfortunately in California, we do not have a tax deduction that's offered for your state income taxes, but it is still a great tool because what you contribute can grow tax free the time that it's there until you start withdrawing.

And the withdrawals are also tax free. If they are utilized for qualified educational expenses. So, this scholar share is administered by the state of California, it is available to anyone. You could live in New York and invest into the scholars sharing 529 plan. And those of us that are in California can absolutely contribute to any other 529 plans around the country as well. So, it is not limited to residents, but those that, let's say, live in Colorado and if that state's 529 plan has a tax deduction- they have an additional advantage. Of course, if we in California like the investments that, let's say, Colorado's plan offers, we wouldn't get that tax deduction. But if it's going to have the investments that we're looking for, why not?

You could open one anywhere in the United States. They offer a variety of investments. That's why I try to say it's similar to a 401k. When you contribute to your 401k, and you open a 401k- you have multiple investment options to choose from. This is similar. These investment options are chosen by the state of California for the Scholar Share 529 plan. But within those you have options. You can absolutely choose based on your risk tolerance. For the 2023 tax year the maximum contribution is \$15,000 per year per beneficiary. What that means is that I can contribute \$15,000 a year for my son, \$15,000 a year for my daughter. So, you can have multiple. 529 plans if you have multiple children.

The great thing, as I mentioned earlier, and it's worth repeating, is that the growth, all the contributions you are putting into this plan, they grow tax free and the withdrawals are tax free for qualified educational expenses.

05:59 Megan

Now, if you find yourself feeling overwhelmed with all this information, please know that you're not alone. According to a survey by College Avenue students, 70% of families have considered 529 plans, but many didn't use them due to a lack of understanding or concerns about affordability. So, to determine if a 529 plan is right for your family, start by assessing your budget.

Take a close look at your current expenses and identify areas where you can cut back or reduce spending because this is going to help you determine how much you can contribute to a 529 plan each month. Once you have an idea of your monthly contributions, you'll need to set a savings goal based on the cost of education you're planning for and the number of years until your child will need the funds.

Choosing the right investment strategy for your 529 plan is also important. You can do your own research or work with a financial advisor to find the best investment options for your needs based on your investment goals and that risk tolerance that we've been talking about. Finally, remember to review your budget and your investment strategy regularly because unexpected expenses, life changes- they can happen.

So, it's important to be flexible and adjust your plan as needed. And if you follow these steps, you can make the most of the benefits of a 529 plan and ensure you're prepared to cover your child's education expenses.

07:33 Barbara

I think another aspect that's important to take into account when looking at your budget, figuring out how much to contribute is, is it even feasible for me to start a 529 plan and make that commitment to start contributing? It doesn't mean that just because you open one, you have to contribute specific amounts every single month, but it's a good idea to do so in any investments that we do.

But think about all the other aspects of your financial stability as well. If you have high debt where you're paying high interest rates, it's important to say what is a priority? Is it better to pay off the debt before I start really committing a lot of money towards a 529 plan? Same thing with your retirement savings. Am I putting enough towards my retirement savings?

Uhm, and how much do I have available after all of those priorities are met to put towards the 529 plan. A great colleague of mine had always said is- you can always borrow for college, which is not ideal, but you can not borrow for retirement.

08:52 Megan

Right.

08:53 Barbara

So, even though we're talking about 529 plans, it's important to keep that perspective that as you explore them and we know we always want to do better with our kids, right?

If we didn't have a 529 plan going into our college and we ended up with student loan debt, we absolutely want to support our kids and have that money for them to make life a little bit easier for them. But what also are we doing to protect us in the future and to make sure we're not going into debt ourselves?

So, just keep that in mind. I think it's important to keep that perspective. It's also important to think about drawbacks of 529 plans. There are some drawbacks. Well, the limited investment options compared to other vehicles, I alluded to this earlier- right, the plan is picking a variety of investments, but they may not be as wide as an IRA or a 401k. So, you really want to look into that.

What are those investments and are they of your liking? Also, if you use the money for something other than qualified educational expenses, then there will be penalties for the withdrawal of that money. And how costly can that be? So it's important to assess how much will we really need for college? Will our children be really going to college?

We don't really know if, especially if we're starting a 529 plan and we are contributing in a monthly basis to this and their babies. What if they decide to open their own business and become the next, you know, Shark Tank millionaire and not really utilize that money? What are other avenues for you to put that money to use?

If you have a second child, could you transfer that money to the second child? Yes, that's a possibility with 529 plans, which is great. But, if you don't have another child, what are the options? So, this these funds are somewhat limited to that. So that's why that budgeting, that planning is so important. Like any other investment avenues there are also fees associated with 529 plan. So we just have to keep those in mind.

And then the impact it has on financial aid. So when our kids are applying to college through the FAFSA, it's important to think how will that in turn affect the 529 contributions, affect the eligibility for financial aid? All of these are things that we have to think about in advance to make sure we're planning the correct way.

11:45 Megan

Yes, I couldn't agree more. And financial aid is, is an important one here, especially because we're talking about using 529 plans as a saving vehicle for higher education. Now, the free application for federal student aid is used by colleges and universities to determine a student's eligibility for federal student aid, including grants, loans, and work

study programs. The amount of aid a student receives is based on a variety of factors, including the family, income and assets.

When you're filling out this free application for federal student aid- 529 plan assets are considered an asset of the account owner, usually the parent or grandparent. So, if the account owner is a parent, the 529 plan assets are reported as parental assets. If the account owner is a grandparent or another relative, the assets are reported as an asset of the student. The impact of these plans on aid eligibility can vary based on the amount of assets in the plan, the family's income and the cost of attendance at the student's college or university.

So, when it comes to things like need based aid, which is awarded based on financial need, the free application for federal student aid formula considers both income and assets, which means that 529 plan assets may decrease a student's eligibility for need based aid.

It's important to note that these 529 plans for nonqualified expenses, such as, you know, buying a game console or treating dorm mates to Chipotle will also be considered taxable income and may reduce a student's eligibility for financial aid during the next academic school year. So don't forget that there is a 10% penalty for these nonqualified expenses that will come into play here, too. If you don't use these 529 plan funds the way that they're intended.

13:58 Barbara

529 plans are absolutely an excellent savings vehicle. It is one of the many savings vehicles that we all can use, especially if we have children and we want to help them have less student debt when they go out to college. So, it's important to make sure it's part of your budget- fit it in. And the great thing about the 529 plan is that you are setting money aside you really can't just withdraw it for anything other than qualified expenses. So, it helps those savings stay there and continue to grow as time goes on. Make sure that you're prioritizing your financial goals so that the 529 plan has room in those goals.

For more information about 529 plans and investments, we encourage you to reach out to Golden 1's investment services team at 1-833-839-0023 or visit the Planning and Investments tab at Golden1.com.

For more financial tips, subscribe to the Golden 1 Financial Wellness podcast on Apple, Google, and Spotify. You can also find a wealth of additional resources such as webcast and videos, by visiting the Financial Wellness tab at Golden1.com.

15:23 Megan

As a dynamic and trusted leader dedicated to enhancing the financial well-being of Californians and a diverse community. We've launched a new learning lab designed to assist individuals in developing their financial knowledge. Get started with our program by taking a personal assessment, and then the program will tailor its content options by providing recommendations, tools, and courses to help support your specific financial journey.

Thank you so much for joining us today. This has been Megan and

15:52 Barbara

Barbara. Wishing you financial, health and happiness. And as always, reminding you to

16:00 Barbara and Megan

Stay golden!

16:01 Megan

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17:15 Megan

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