

# SECTION 529 COLLEGE SAVINGS PLANS

If you are on track to meet your retirement savings goal, then saving for college education for your child or grandchild makes sense. Every dollar saved for college is a dollar less to borrow for tuition and other expenses. But since you can't get a loan for retirement income, saving for college should take a back seat to saving for retirement.

If your retirement nest egg is in good shape, then consider state Section 529 plans for college savings. (The odd name comes from the section of the tax code that allows these plans.) For more information and resources on saving and investing, head over to [www.aarp.org/money](http://www.aarp.org/money).

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A 529 college savings plan works kind of like an IRA in that it provides tax benefits to account holders. Only, instead of saving for retirement, you're saving for college education expenses.

Most states sponsor one or more 529 plans, but you can use your savings toward tuition anywhere. Some states offer a tax deduction on your contributions, meaning you can lower your tax burden in each year you contribute. Even if your state does not offer a deduction on contributions, neither the state nor the federal government taxes earnings or gains as long as the money goes toward college expenses.

Learn more about **each state's 529 plans** at [www.savingforcollege.com](http://www.savingforcollege.com). This is a great resource to review the 529 plans states offer.

## WHAT TO LOOK FOR

When choosing a 529 plan, you can compare several features including:

### 1. Tax treatment

If your state gives you a deduction on 529 contributions, then it makes sense to choose a plan your state runs. Otherwise, look at other features to compare plans.

### 2. Cost

All investments come with fees. With 529 plans, you may pay an annual maintenance fee (\$15, for example) and an investment fee. The investment fee is a percentage of the assets in your account. You can compare investment fees at [www.savingforcollege.com/529\\_plan\\_details](http://www.savingforcollege.com/529_plan_details).

### 3. Investment choices

Most 529 plans offer several investment options. If you're uncomfortable selecting investments on your own, each plan offers aged-based plans. These funds invest based on when the child you are saving for is expected to start school; the investments grow more conservative the closer the child gets to starting college.

## OTHER THINGS TO CONSIDER

Some people worry that the savings in a 529 plan will interfere with financial aid. In reality, just 5.64% of the account balance is counted toward the student's Expected Family Contribution (EFC) if a parent owns the plan. None of it counts if a grandparent owns the plan.

If the child you opened the plan for ends up not going to college, you can change the beneficiary. You can even name yourself and take some post-secondary classes. If you take money out of the plan and don't use it for college, you'll pay a 10% penalty on any gains plus regular income taxes.

Also, if you aren't happy with the performance of the plan you choose, you are able to change plans once a year.

Another type of college savings plan is state 529 pre-paid tuition plans. Generally, you save and invest for a specific in-state college with these plans. To learn more about them check out a comparison of the plans on [www.savingforcollege.com](http://www.savingforcollege.com).

## TAKE ACTION!

- See if your retirement savings is on track at [www.aarp.org/retirementcalculator](http://www.aarp.org/retirementcalculator).
- Visit [www.savingforcollege.com](http://www.savingforcollege.com) to compare 529 plans in your state.
- Make a plan for your retirement. Be specific and set realistic goals to help make retirement attainable. Go to [www.aarp.org/retirement](http://www.aarp.org/retirement) for resources to help you plan, budget and save.

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