

WHY A 529 PLAN MIGHT MAKE SENSE FOR YOU

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"This article written by Ryan McCarthy details the reasons a 529 Plan might make sense for you. The biggest advantage is its tax benefits."

McCarthy Asset Management, Inc. is an independent, fee-only investment advisory firm that has been helping people invest wisely for over fifteen years. Our mission is to help you better understand and improve your financial situation. We specialize in Retirement Planning, Portfolio Management and Tax Planning.



A 529 plan is a special type of tax-advantaged investment account designed to help families save for future education expenses. These plans can be used by parents, grandparents, and others to pay for a child's college or other qualified schooling expenses.



Tax Treatment: One of the biggest advantages of a 529 plan is its tax benefits. Contributions are made with after-tax dollars, but the money in the account grows tax-free. When withdrawals are used for qualified education expenses, those withdrawals are also tax-free. In addition, some states may also offer a state tax deduction or credit for contributions.

Why are 529 plans beneficial? 529 plans can be a powerful savings tool because they combine long-term investment growth with tax advantages. Over time, this can help families build an impactful education fund. They are also flexible, as account owners maintain control of the funds.

Who might a 529 plan apply to? Parents wanting to save for college in a tax-advantaged way or grandparents looking to leave a meaningful gift are the most common account owners. However, even families who aren't sure about college plans yet may find them useful because of their flexibility and long-term growth potential.

What costs are considered qualified expenses?

1. College costs. This includes tuition, books, supplies, and room and board (if the student is enrolled at least half-time).
2. K-12 tuition. 529 plans can be used for up to **\$10,000 per year** per student for tuition at public, private, or religious elementary and secondary schools.
3. Trade schools. Expenses for eligible technical schools or career training programs also qualify.
4. Apprenticeship programs. Costs related to registered apprenticeship programs, such as fees, books, and required equipment, may be covered.
5. Student loan repayment. Up to **\$10,000 lifetime** per beneficiary can be used to pay down qualified student loans.

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- "Retirement Analysis" a comprehensive analysis of your retirement goals, which produces easy-to-read, interactive working plan, stored in the cloud. Updated as needed for life events.

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 - Income Tax Projections
 - Tax Minimization Ideas
 - Tax Authority Representation

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 - Medicare Planning— Eileen Hamm of Superior LTC Planning Services, Inc.
 - Long Term Care Planning— Allen Hamm of Superior LTC Planning Services, Inc.

What happens to unused funds? Any funds that are not used in a 529 account are not automatically wasted. There are several options for unused funds.

1. Change the beneficiary. The account owner can transfer the plan to another qualified family member, such as a sibling, cousin, grandchild, or even a parent.
2. Keep the money for future use. There is no federal time limit on when the funds must be used, so the account can stay open in case the beneficiary decides to pursue education later.
3. Withdraw the money (non-qualified withdrawal). If the money is withdrawn for non-education purposes, the earnings portion of the withdrawal will generally be subject to income tax and a 10% penalty. The original contributions are not taxed again since they were made with after-tax dollars.
4. Roll over to a Roth IRA. This is a new option, as under recent rules, some unused 529 funds (up to \$35,000 per beneficiary) can be rolled into a Roth IRA for the beneficiary, subject to certain limits and requirements. This can be a helpful alternative if the student doesn't need the funds for school.

MAM Comments: In summary, a 529 plan is a flexible and tax-advantaged way to save for education, offering families a powerful tool to prepare for rising school costs while allowing investments to grow tax-free when used for qualified expenses. Beyond the immediate benefits, these plans provide valuable peace of mind because unused funds don't have to be wasted—you can change the beneficiary, hold the account for future education, or even explore newer options like rolling funds into a Roth IRA. Overall, a 529 plan is not only a smart strategy for supporting a child's educational future, but also a versatile financial resource that can adapt as life and goals change.