

The 411 on 529 college saving plans

College tuition is probably the most significant financial investment most parents make in their children.

And with today's tuition at both public and private colleges amounting to a small fortune, saving for that investment is a daunting challenge for many parents.

To help meet that goal, a growing number of parents are turning to 529 plans to build up the savings needed to send their children to a good college or university.

These plans, available in every state, give parents a tax-free way to save to meet higher education expenses. Earn-

ings in 529 plans grow free of federal tax, as long as the money is used for eligible college expenses. Some plans, including New Jersey's NJBEST 529 plan, also provide a state tax exemption.

"529 accounts are an excellent way to save for looming college costs because interest earned on these accounts grows tax free — both state and federal — if used for qualified edu-

cation expenses," said Gabrielle Charrette, executive director of the Higher Education Student Assistance Authority,

which oversees New Jersey's 529 plans. "NJBEST has strong performance, low fees and accounts can be opened with as little as \$25."

Generally, eligible expenses include tuition, fees, supplies and room and board for students enrolled at least half time, according to NJBEST. Only one person can own a 529 account, with only one beneficiary. But one person can own several different accounts.

Many plans, including New Jersey's, allow investors to save up to \$305,000 over the life of the plan. Like retirement accounts, 529 plans are subject to market fluctuations. Risks vary, depending on how an investor chooses to allocate assets (i.e. stocks, bonds, fixed accounts).

That's why experts advise parents and other family investors to research a plan's history, fees and other factors and, if possible, consult a financial adviser

before investing. A good source for evaluating different plans is savingforcollege.com, which rates and provides an evaluation and comparison of 529 plans. The website also publishes a list of the top-performing plans.

While students can use 529 savings to attend any college accredited by the U.S. Department of Education, NJBEST offers incentives to students who choose to spend their college years in New Jersey. This could include a scholarship of up to \$1,500, depending on how long the savings plan has been in effect, and waiving the annual \$25 maintenance fee.

So what happens if the plan's beneficiary — the child for whom the college savings was intended — does not go to college? The plan owner can change the beneficiary, but the new beneficiary has to be a member of the previous beneficiary's family. This can include children, grandchildren, siblings, spouses, nieces and nephews, aunts and uncles, cousins and in-laws, according to NJBEST.

But be careful: If the money is not used for college expenses, the owner will owe federal income tax on any withdrawals, as well as having to pay a federal tax penalty. The owner also may be liable for state income tax and penalties on the taxable portion of the earnings.

— Nancy Parello



College saving 529 plans, available in every state, give parents a tax-free way to save to meet higher education expenses. Earnings in 529 plans grow free of federal tax, and some plans, including New Jersey's NJ BEST 529 plan, also provide a state tax exemption.



A growing number of parents are turning to 529 plans to build up the savings needed to send their children to a good college or university — and to avoid or minimize the amount that will be needed to be borrowed in student loans.