

529 College Funding Plans Saving for College Made Easier Than Ever

It is among the most important goals for parents and grandparents – to give their children or grandchildren a college education. And for good reason. Very few “gifts” in life are better than a college education. A college graduate earns on average 50% more per year than non-college graduates!

The challenge for more and more parents and grandparents, unfortunately, is paying for a college education. Four years at a private school currently costs \$120,000 and costs are rising at twice the national inflation rate! Well, there’s always an athletic scholarship, a common hope among parents. But an athletic scholarship for your child or grandchild is less than a 1% chance. If it happens, great, but you do not want Junior’s college education resting on a 100:1 long shot! The only real answer for a college education for most parents and grandparents is saving and investing the money on a regular basis.

Investment and Tax Benefits

Fortunately, recent tax law changes have opened up the door for parents and grandparents who are serious about saving for a college education for their children and grandchildren. College funding “529 Plans” – so called because of the section of the tax code they are named after – are simply the best programs ever created to help parents systematically meet the college crunch.

The College Crunch: What Four Years Could Cost

Your Child’s Current Age	Public School	Private School
Newborn.....	\$149,450	\$325,527
3	\$125,557	\$273,318
6	\$105,420	\$229,483
9	\$ 88,512	\$192,679
12	\$ 74,317	\$161,777
15	\$ 62,398	\$135,831
17	\$ 55,534	\$120,889

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A 529 Plan can help you put to work several tried and true long-term investment strategies, all working together to help save the money for college that is going to be needed. Here are a few of the key benefits of 529 Plans ...

The money you invest in a 529 Plan will grow completely free of taxes. Money you would normally lose to taxes each year instead stays invested earning more money for your child or grandchild

- **Tax-Free Withdrawals.** Under current law, the money you withdraw for the beneficiary from your 529 Plan for higher education expenses is exempt from taxes.
- **Dollar Cost Averaging.** When you fund your 529 Plan with regular contributions, you are “dollar cost averaging”, which has proven to be an effective method for benefiting from market volatility over time.
- **Professional Money Management.** 529 Plans (there are over 40 to choose from) offer professional management of your money from some of America’s leading firms. (All 529 Plans are not equal, so please be sure to call us to review some of our favorite plans.)
- **Diversification.** 529 Plans allow to you to diversify among a menu of different investment options, allowing you to build a customized mix of investments for your child or grandchild.
- **Portability.** Assets in a 529 Plan can be used to pay higher education expenses at accredited universities nationwide. You’re not limited to accredited universities in your state alone or the state that is the “sponsor” of the 529 Plan you select.

Funding and Controlling a 529 Plan

The first piece of good news about opening a 529 Plan is that they are open to all. Unlike other savings programs, there are no income limits on opening a 529 Plan - anyone can contribute. So you’re eligible! Once you decide that a 529 Plan makes sense, you have a variety of ways to fund your account. You can invest money on a periodic basis (monthly, as an example) or with one lump sum. Here are a few key things to keep in mind about funding a 529 Plan:

- **High Investment Limits.** Most 529 Plans have very high investment limits, allowing you to accumulate a great deal of money for college, free of federal taxes. Our favorite 529 Plans have

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investment limits from \$230,000 - \$265,000, which means you'll have to stop funding your 529 once the account reaches that value.

- **Gift-Tax Free Annual Limit.** You can invest up to \$12,000 a year (\$24,000 for married couples) without gift tax consequences for each beneficiary. So if you have two children or grandchildren, you and your spouse can invest \$48,000 per year without gift taxes.

- **Estate Strategy.** 529 Plans even provide an excellent estate planning strategy worth considering. You can even elect to accelerate up to five years' worth of investments and immediately invest \$60,000 into a 529 Plan without gift tax consequences or \$120,000 for a couple. If you choose this election, you will not be able to make any other gifts to the beneficiary during that year and the next four years. Again, keep in mind that these limits apply to each beneficiary account.

If you have two children or grandchildren, you and your spouse could move \$240,000 out of your estate and into a 529 Plan. And the best news of all is that although these assets are out of your estate for tax purposes, you still control these assets!

It is the "control" of the assets that has many parents and grandparents particularly excited about 529 Plans. The donor at all times maintains control of the account. With a 529 Plan, you don't have to worry about your child receiving the money at age 18 and not attending college or blowing it on cars and trips around the world! You are the boss and only you decide when to withdraw money from your 529 Plan and for what purpose. Most plans even allow you to reclaim the funds for yourself any time you desire, no questions asked. (However, the earnings portion of the "non-qualified" withdrawal will be subject to income tax and an additional 10% penalty tax). Compare this level of control to a custodial account under the Uniform Transfers to Minors Acts (UTMA). You can even change the beneficiary to another family member whenever you choose.

Professional Investment Management

Over the long-term, the management of the assets in your 529 Plan will be a key determinant of the value of your account. The good news is that 529 Plans offer some of the leading investment management firms. The bad news is that unlike an IRA or other self-directed account, you cannot just choose any mutual fund or investment manager for your assets. Each 529 Plan comes pre-packaged with funds and investment managers already selected. In some cases, you

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will have little flexibility other than selecting an asset allocation model for your account (usually based on the age of your child or grandchild). Basically, though, 529 Plans come in two flavors...

- **Single Manager Plans.** Many 529 Plans only offer one money manager in the program. This single manager handles all of the funds available in the plan.

- **Multi-Manager Plans.** Some 529 Plans have opted to go the multi-manager route by allowing the owner to choose from a menu of leading investment firms.

We won't list all of the managers available as the list is changing frequently. Call us and we can walk you through the firms and their plans and help you find one that best fits your needs.

Getting Started

Unlike retirement planning, which is somewhat flexible as to when you want to retire or deciding if you'll work during retirement for additional income, college funding has no such flexibility. When your child will attend college and how much it will cost are fairly certain. Starting as early as possible makes time your friend. 529 Plans are excellent programs and parents who are serious about a quality education for their children need to review the benefits of them immediately.

Comparing Three Ways To Save For College

	529 Plan	Coverdell	UGMA
Income Limits.....	No	Yes	No
Contribution Limits.....	\$240,000+	\$4,000/year	None
Income Tax Free.....	Yes *	Yes *	Maybe
Owner Control.....	Yes	Until age 18	Until age 18
Investment Flexibility.....	Yes	Yes	Yes
Use of Money.....	Higher Ed	K – College	Must benefit child
Change Beneficiary.....	Yes	Yes	No

*Tax -free withdrawals are allowed through 2010, although the tax law may be extended.

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