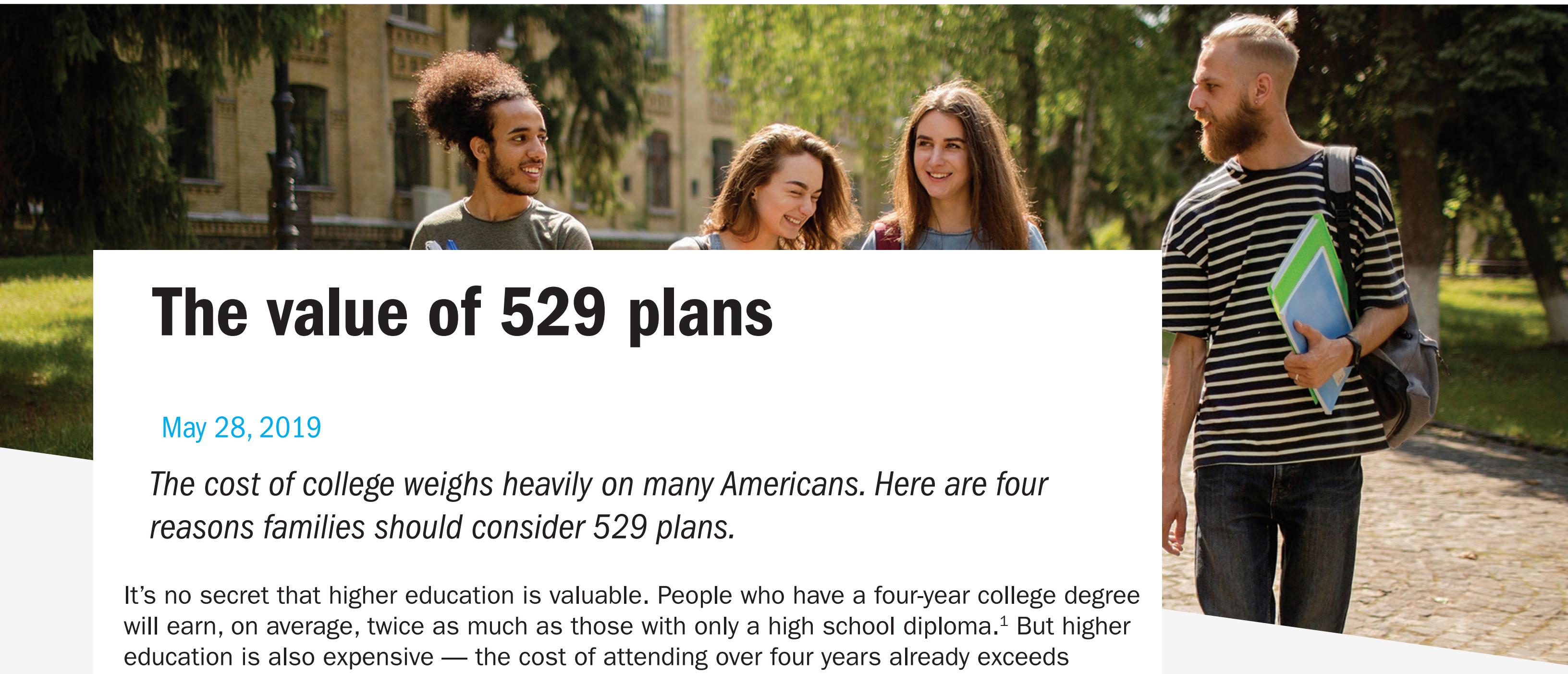


# The value of 529 plans

May 28, 2019

*The cost of college weighs heavily on many Americans. Here are four reasons families should consider 529 plans.*

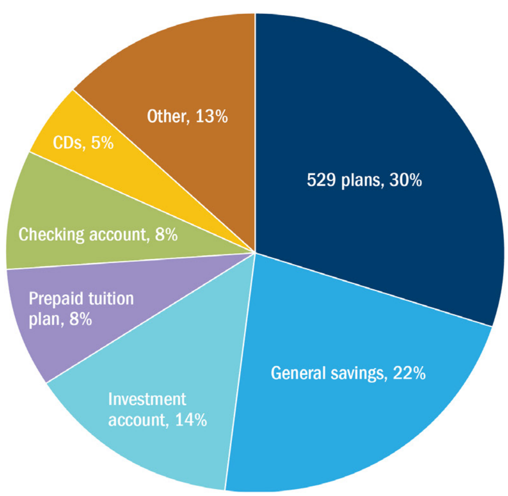
Columbia Threadneedle Investment Team

It's no secret that higher education is valuable. People who have a four-year college degree will earn, on average, twice as much as those with only a high school diploma.[1] But higher education is also expensive — the cost of attending over four years already exceeds $100,000.[2]

Given that most people need to plan for rising higher education costs, how are they saving for college expenses? When we look at a breakdown of assets across the most popular college savings vehicles, 529 plans are the largest single category, but 70% of college savings assets are still held in other types of accounts. Given the powerful tax advantages of leveraging a 529 to plan for college, this is a lost opportunity.

**Missed opportunities: Most college savings dollars are not in tax-advantaged accounts**

Proportion of college funds held in each account type




Source: Sallie Mae, How America Pays for College, 2018.

1 U.S. Bureau of Labor Statistics: Current Population Survey, Unemployment rates and earnings by educational attainment, 2017

2 The College Board, Trends in College Pricing 2018

529 plans are a powerful way to save for college.

529 plans are designed to make investing for college easier by providing tax advantages that aren't offered by any other education savings vehicles.

| Key benefits of 529 plans | |
|---|---|
| Tax-deferred growth | All of the earnings in a 529 account are exempt from federal income taxes, so they have the potential to accumulate faster than they would in comparable taxable investments. |
| Tax-free distributions | When the money in a 529 account is used to pay for qualified education expenses, there are no federal taxes on withdrawals. This can mean more money to put toward education costs, since taxes won't be taking a significant portion of what's been accumulated over the years. |
| Favorable gift and estate tax benefits | Due to special provisions available to 529 education savings plans, certain contributions can be made to an account without incurring federal gift taxes and without reducing unified federal estate and gift tax credit. All while reducing the taxable estate. |
| Control and flexibility | 529 plans allow the account owner, not the beneficiary, to retain control of the account assets (some conditions apply). This is a significant advantage that 529 plans have over other gifting and estate planning vehicles. |

Bottom line

Saving for college can be challenging, and it's important for families to plan for this future expense with their financial advisor. A tax-advantaged 529 plan could help offset the widening gap between family income and future college costs.

Columbia Threadneedle Investments does not offer tax or legal advice. Consult with a tax advisor or attorney.

Withdrawal of earnings not used for qualified higher education expenses will be subject to federal and possibly state and local income tax and may be subject to an additional 10% federal penalty tax.

Clients contributing to a 529 plan offered by a state in which they are not a resident, should consider, before investing, whether their, or their designated beneficiary(s) home state offers any state tax or other state benefits such as financial aid, scholarship funds or protection from creditors that are only available for investments in such state's qualified tuition program.

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