

Title: 529 plans: What you should know

Asset TV Host

529 plans have always been an attractive way to save for higher education, but thanks to some recent changes in Washington, they offer even more potential applications and benefits. Joining us now with more details is Ryan White, director of product management at Columbia Threadneedle Investments. Well, Ryan, it's great to have you back with us.

Ryan White

Yeah, great to be here.
Thank you for having me back.

Asset TV Host

Of course. So, for starters, what is a 529 plan and why should we be using them?

Ryan White

Yeah. You know, 529 plans have been around since the late nineties. They're very creatively named for their section of the of the tax code. We seem to like to do that in financial services. But, you know, we should use them because when we're thinking about planning for the cost of education, which is a goal that many people have — 529s are the only vehicle that were ever created specifically for that purpose. So, if we're using anything else, you know, we're potentially using something that's less advantageous that wasn't designed for that, for that specific goal. And of course, education is expensive. You know, the average cost of a four-year college degree for an in-state school is somewhere in the neighborhood of about \$28,000 a year. So, you're talking about an expense that already costs in today's dollars, you know, over \$100,000, which is a big number for, you know, most families. And most students are going to go to college. So, when you consider that your chances are good, you're going to need that money when the time comes. 529s really offer, in my opinion, you know, the best opportunity to be able to plan for that objective.

Asset TV Host

Now, what's the market opportunity for 529 plans?

Ryan White

Yeah, and I think that's an important question as well, because especially when we consider financial advisors, you know, why should people be interested in discussing 529? You know, the industry, right? So, if you look at all the 529 plans overall, there's a little over \$400 billion currently invested in 529s, which sounds like a lot of money, but when you consider the amount of students that are going to be enrolled in college just in this upcoming academic year and the Department of Education puts that number somewhere around 19 million. And then you multiply that across the sort of average cost of education. Well over \$400 billion is going to be spent this year alone on higher education. So, when we think about market opportunity, when you when you put some context around it, you can see pretty quickly that the amount of money invested in 529 isn't anywhere near the amount of money that's going to be spent just this year

alone. Your average account balance for 529 plans is probably around \$25,000, which isn't even enough to cover one year at most in-state four year institutions. So a long way to go, but 529s represent a great opportunity as well.

Asset TV Host

Yeah, it's a lot more different applications than people might imagine.

Ryan White

Absolutely. Absolutely. I mean, again, when these programs were created and in the late nineties, they were exclusively for college use. But over time, they've just gotten, you know, more broadly applicable depending on what your specific circumstances are, which is really made these vehicles, you know, very valuable.

Asset TV Host

And people can even use 529 plan money for a private school education as well. When did that change come along?

Ryan White

Well, so private school distribution were actually added as a result of the Tax Cuts and Jobs Act back in back in 2017, but SECURE 2.0, really expanded the opportunity for a use case for not using the money for education. You know, if you think about prior to the end of last year, you still had a lot of flexibility as a 529 account owner in the event that your funds were potentially not needed for education. You've always had the ability to change the beneficiary to another student. You could simply do nothing and continue to earn tax-deferred growth, or ultimately take a non-qualified distribution. But what SECURE 2.0 did is it has actually made eligible the opportunity to roll over a certain amount of 529 assets to a Roth IRA for the beneficiary. And this has really gone a long way towards eliminating the concern of, you know, over funding the 529. Now, when you consider the cost of education, it would be pretty difficult, in my opinion, to get too much money invested in a 529 account. But if that concern is there, the ability to roll up to \$35,000 of a 529 account to a Roth IRA really goes a long way towards reducing that concern and also creates a clear link between saving in a 529 and ultimately saving for retirement.

Asset TV Host

So, there are a lot of options available to account holders if, say, the beneficiary decides not to pursue higher education or maybe doesn't use all the funds, especially thanks to SECURE 2.0.

Ryan White

Absolutely. Again, you know, 529s were flexible, sort of right out of the gate. Simply the ability to change the beneficiary to anyone who's a member of the family goes a long way towards, you know, again, eliminating the concern of, well, if my son doesn't go to school, perhaps my daughter will, or if my son gets it paid for, perhaps my daughter will use the funds if she decides to go to grad school or whatever the case may be. So there's, you know, an infinite number of potential possibilities. And the tax code allows you to change that beneficiary to anyone who's a

member of the family. And as I mentioned earlier, there's no requirement that you ever take money out of a 529. And I always remind folks that, you know, even though your high school senior may not go to college right away, it doesn't mean they're not going to go at all. And so the idea that I can just continue earning on a tax-deferred basis to ultimately use the funds for a qualified expense down the road, you know, these are features that have made 529 plans very valuable for a long time. But certainly this most recent expansion, which is just, you know, another expansion that's coming after a long line of improvements to 529. You know, this really for me is a game changer, right? I can think about the opportunity of not only saving for education, but even potentially planning for what I'm calling that fifth year, right? I'm funding the 529 with not only what I need for college expenses, but now funding it with the idea that I'm going to roll a certain amount to the Roth IRA for that beneficiary and let that start compounding. The minute they graduate and potentially start earning income, and if you extrapolate that out over, you know, three or four decades until retirement, you're talking about a very significant account that even if the beneficiary never ultimately contributed any of their own money to — the accumulation over time, the benefit of compounding, you know, cannot be overstated and certainly an opportunity for a lasting legacy as well.

Asset TV Host

So people really shouldn't stress about, oh, no, what if I add too much money to the account?

Ryan White

You know, I come from a position, all bias aside, that it's very difficult, in my opinion, to over fund your 529, there's just too many options. Education is very expensive. In fact, analysis shows that most people will wind up spending a lot more than what they ultimately planned on spending. And that's even factoring in the receipt of scholarships and other financial aid. You know, student loans get the reputation for filling that void. And they do to a large part. But by and large, the biggest discrepancy in what we see people thinking they're going to spend and ultimately spending on education comes from that parent income and savings bucket. So again, a 529 plan is really an opportunity to put a proactive plan in place to ultimately fund that goal, knowing full well that you have a lot of opportunities to use that money in a very advantageous way, even if it's not necessarily needed, at least in entirety for education.

Asset TV Host

So are there advantages to 529 plans over and above their benefits for education? And why should financial advisors get more familiar with these plans?

Ryan White

Yeah, it's a great question and 529 plans are extremely advantageous in areas even over and above education. 529s are actually given very unique and in some cases exclusive treatment in the tax code. And a great example of this is the ability to basically have a completed gift when you contribute to a 529 but maintain control of that gifted asset. In most cases, when you are able to use your gifting exclusion or when you complete a gift to someone else, you have to give up interest in whatever you gave away. 529s are unique in that when I contribute, I'm completing a gift to the beneficiary for gift in estate tax purposes. But as the account owner, I

still have daily access liquidity and control. They're also unique in the sense that it's the only place in the tax code where I can accelerate my gifting up to a five times multiple, so I can put in five times what I'm allowed to typically give to utilize my exclusion in a single year and not have any type of gift tax consequence. So, you know, certainly if I'm someone who has the means to be able to accelerate that funding of a 529, that's greater opportunity for compounding. And an opportunity to remove money from my taxable estate and still maintain control. So certainly, you know, I would argue the smartest way to save for college, but also 529 can be a very valuable piece in an estate and legacy plan as well.

Asset TV Host

Finally, how can people choose the right investment options within a 529 plan?

Ryan White

Well, this is an area where, again, I really think a financial advisor can add a lot of value. You know, if you look across the industry, there's 90 plus programs available in a direct-to-consumer capacity. There's another 30 plus programs that are available to folks through financial advisors. Every single one of those programs, you know, probably has in the neighborhood of around 30 plus investment options. So that's a lot of different potential investment, potential portfolios to consider. And an advisor can really help, you know, their clients navigate that landscape. They can help them choose the type of investment option within their program of choice that is, you know, the most appropriate for them. And understanding that, again, you can have a lot of different educational goals wrapped up into a single 529 account. I might be planning for K through 12 education as well as college, as well as thinking about this longer term opportunity to potentially rollover funds to a Roth IRA. All of those funds are going to have different time horizons. All of them are going to have different potential appropriate investment options to choose from. And who better to provide that advice than a financial advisor?

Asset TV Host

Well, Ryan, thank you so much for joining us.

Ryan White

Thank you for having me. And I appreciate the opportunity to talk about 529 plans anytime I can get it. So thanks again.

Asset TV Host

Well, it's an important topic and they keep everyone watching. Once again, that was Ryan White, director of product management at Columbia Threadneedle Investments. I'm Jenna Dagenhart with Asset TV.

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