



# 529 College Savings Plans

## *Planning and Saving for College*

### **Start Early**

Start saving early, even putting just a little into a 529 College Savings Plan on a regular basis can help you get closer to reaching your education savings goal. If your employer offers a 529 payroll deduction, enroll in it. Many Corporate 529 Payroll Deduction Programs allow you to put away as little as \$25 a month and often waive the sales-load and annual fees, thus getting more of your money invested.

### **Rewards Programs**

Sign up for a free 529 rewards program such as [Upromise](#) where you can save money for college just by shopping at participating stores, restaurants and certain service providers. The rewards you earn don't increase the cost of your purchases, but are actually a reward given by the merchant out of their profits. A rewards program may not get you enough to pay for an elite private college, but a heavy and smart user can easily earn a couple hundred dollars per year in rewards. You can invest your rewards in a 529 plan so that the assets can grow tax-deferred and come out tax-free if you use them for qualified higher educational expenses (QHEE). If you use your 529 account for a non-qualified expense you will be assessed a 10% penalty and owe income tax on the earnings portion of the non-qualified withdrawal.

A nice feature of these programs is that you can invite friends and relatives to sign up and contribute their rewards to your account. So when grandparents, aunts and uncles, and even unrelated friends shop or dine out they're also helping you save for college.

### **Financial Aid**

Understand the types of financial aid that are available and be realistic about how much and what type of financial aid your child may be eligible for. Financial aid includes grants, loans and scholarships. In addition to federal financial aid, you may also be able to get financial aid from your state government, your school or a private scholarship. Research nonfederal aid early (ideally, start in the spring of your junior year of high school). Be sure to meet all application deadlines!

The amount and type of financial aid offered is based on two factors:

- The student's financial need
- The student's merit (scholastic, athletic, musical, etc.)

Understanding the terminology and how federal financial aid is calculated can help too. Here's a quick snapshot.

- COA = Cost of Attendance (Budget) - Includes tuition, room, board, fees, books, supplies, transportation, personal expenses.
- EFC = Expected Family Contribution – This is what a family is expected to contribute over a year.
- Financial Need (Eligibility) = Difference between COA and EFC
- Basic Formula:  $COA - EFC = Eligibility$

Income has the biggest effect on your financial aid eligibility. 22% - 47% of the parents' income is assumed to be available for paying for college.

Financial aid can include "self-help" which includes interest-subsidized loans and work-study and "gift aid" which consists of grants and scholarships. Gift aid is more attractive, of course, because it doesn't have to be paid back and doesn't place additional demands on the child.



## 529 College Savings Plans – Planning and Saving for College, *continued.*

### Who Gets Need-Based Financial Aid

Need-Based Grants are awarded by colleges and reflect an assessment of the student's family's ability to pay for college. They do not reflect the student's academic ability or other talents.

At Private Colleges eligibility for need-based grants becomes *unlikely* when:

- Parents of students without siblings in college have incomes exceeding \$180,000
- Parents of students with one sibling in college have incomes exceeding \$260,000

At Public Colleges need-based grants are often targeted toward students with the highest financial aid eligibility.

And remember that "Payments by Others" is considered as student income. Any payments not from the student's custodial household may reduce the following year's financial aid.

Having multiple students in college at the same time is a big factor in the formula.

- Public Colleges divide the parents' contribution among all undergraduate students.
- Private Colleges will either divide the parents' contribution evenly or do a smaller but substantial reduction for each child.

### Will My Savings Hurt My Child's Chance for Financial Aid?

Some assets hurt more than others. The good news is your retirement assets don't count. And remember, you can borrow to pay for college, but not for retirement. Be sure to fund your retirement accounts.

Home equity doesn't count on the FAFSA. But schools that use the CSS Profile may include the equity in your home so that your family's "Borrowing Power" can be assessed.

If you have rental properties or a second home, 100% of the equity will be counted.

The good news is that your 529 Savings Plans, even if funded with the student's assets are financial aid friendly both on the financial aid application and when used for QHEE.

### Finding Cash Flow

Do you have any temporary or seasonal expenses such as child care, uniforms and equipment for sports teams? When these expenses stop, start adding those payments to your college savings plan. Commit part of your future salary increases to your college fund. Encourage others to help you save or pay for college. Instead of giving other kinds of gifts ask them to write a check made out to your college savings plan.

**Investors should consider the investment objectives, risks, charges and expenses associated with a 529 Plan before investing. This and other information is available in a Plan's official statement. The official statement should be read carefully before investing.**

*Depending on your state of residence, there may be an in-state plan that provides tax and other benefits not available through an out-of-state plan. Robert W. Baird & Co. does not provide tax advice. Before investing in any state's 529 plan, you should consult your tax adviser.*