529 Savings Plans

Many people dream of providing their children with a college education. However, with costs increasing at a rapid pace, it may seem impossible to make it a reality. A savings strategy that includes a tax-advantaged 529 Plan could be a solution that will enable you to send your child to college without sacrificing your family's other important financial goals.

The cost to attend college … is growing. According to the College Board – Trends in Higher Education Series[1], the new average published annual cost to attend a four-year in-state public university (including tuition and fees, room and board, and books) for 2023-2024 is $28,840. Out-of-state, the cost is $46,730. The average cost at a four-year private not-for-profit university is $60,420. Assuming an optimistic 4% annual increase, the average cost for a child born in 2024 to attend an in-state public university for four years starting in 2042 could be as much as $248,098. The cost for an out-of-state public university could be $401,997, while a private university could cost $519,766.

As the cost of higher education continues to climb … parents, grandparents, and other sponsors providing financial resources are under increasing pressure to find investment solutions. Saving for education often starts too late, and parents are tempted to tap into retirement savings or borrow against home equity as solutions. Such steps can seriously undermine the success of other critical financial goals.

If you plan to send a child to college in the future … you have several options including a Coverdell Education Savings Account and a Uniform Gifts/Transfers to Minors Act Account (UGMA/UTMA), each described in the chart on page 4. When saving for college is the primary goal, the 529 Savings Plan is unmatched in its benefits and flexibility. The tax advantages of a 529 Plan, coupled with an early start and systematic investing, may be your best strategy for meeting these important education goals.

1. https://research.collegeboard.org/media/pdf/trends-in-college-pricing-presentation-2023.pdf

UNMATCHED FEATURES & BENEFITS

Created in 1996, the 529 Savings Plan is a state-sponsored savings program that allows an individual donor (most often a parent or a grandparent) to save for the higher education expenses of a beneficiary (usually a child or grandchild). All income earned in the 529 Plan, including capital gains, interest, and dividends, may be withdrawn free of federal and most state taxes when used for Qualified Education Expenses.[1]

Availability

An account may be opened for a designated beneficiary regardless of age in most Plans. Neither the owner nor the beneficiary of the account must reside in the sponsoring state to participate in most 529 Plans. In addition, there are no income or net worth barriers to participation.

Flexible Investments

Contributions are usually invested in professionally-managed portfolios consisting of stocks, bonds, and other securities. Most Plans offer multiple investment choices with varying degrees of exposure to the stock market. Some Plans offer age-based portfolios featuring asset allocation that changes as the beneficiary's college start date nears. Plans are usually either single-manager Plans, where all the investment options are managed by one mutual fund family, or multi-manager Plans, where many different investment managers are available within the same Plan.

High Contribution Amounts

While 529 Plan accounts have unlimited earnings potential, maximum contributions are set by each state and will vary. For example, Virginia caps contributions when combined account values for a beneficiary reach $550,000.[2]

Unmatched Gifting & Estate Planning Benefits

Contributions to a 529 Plan are treated as a "completed gift" under IRS rules, which means the donated funds are excluded from the taxable estate of the donor. Effective 2024, an individual may give $18,000 ($36,000 per couple) to a beneficiary per year tax-free, without triggering federal gift taxes. A special election available only for 529 Plans allows donors to accelerate as much as five years' worth of gifting. Therefore, you may contribute as much as $90,000 ($180,000 per couple) at one time for each beneficiary. Consult a professional tax advisor if you are using this strategy.

Flexible Uses

- K-12 tuition up to $10,000 per year for public, private, and religious schools
- College tuition and fees, books and supplies, special equipment and room and board
- Fees, books, supplies, and equipment required for participation in a certified apprenticeship program
- Applicable at any accredited college or university and is not restricted to the state where the Plan is sponsored
- Use to pay the principal and interest of a qualified education loan of a designated beneficiary or sibling of beneficiary (not to exceed a lifetime limit of $10,000)

Tax Advantages

- Earnings grow tax-deferred until withdrawn
- Earnings withdrawn to pay for qualified expenses are free of federal taxes; many states also permit tax-free withdrawals[3]
- Many states offer a tax deduction for all or part of contributions made if they are deposited to a Plan sponsored by that state[4]
- Up to $35,000 of unused funds may be converted from a 529 account to a Roth IRA under the beneficiary's name without penalty. At least 15 years must have passed since the 529 account was opened in order to be eligible for this option. Other important restrictions apply.

1. Distributions for non-qualified expenses are subject to income taxes as well as a 10% penalty on the earnings. The 10% penalty is waived for scholarship, death and disability.
2. Source: www.virginia529.com
3. State tax benefits vary from one state to another. Davenport & Company LLC is not in the business of rendering tax advice. Please consult your professional accounting or legal advisor prior to acting on any information provided by us that may have an effect in these areas.
4. See Footnote 3

Unprecedented Control

As the owner of a 529 Plan, you retain control of the account at all times. Investment, disbursement, and beneficiary decisions are always made by the account owner, unlike a custodial account (UTMA/UGMA), where the beneficiary takes control at the age of majority (which varies by state between 18 and 25 for gift purposes). The owner may change the beneficiary to another member of the original beneficiary's family without tax consequences and may withdraw all or a part of the account at any time. If funds are not used for qualified education expenses, earnings would be subject to the non-qualified distribution rules, which will result in income taxes as well as a 10 percent penalty on the earnings. In the event that the beneficiary receives a scholarship, becomes disabled, or dies, favorable tax provisions apply.

Unused Funds

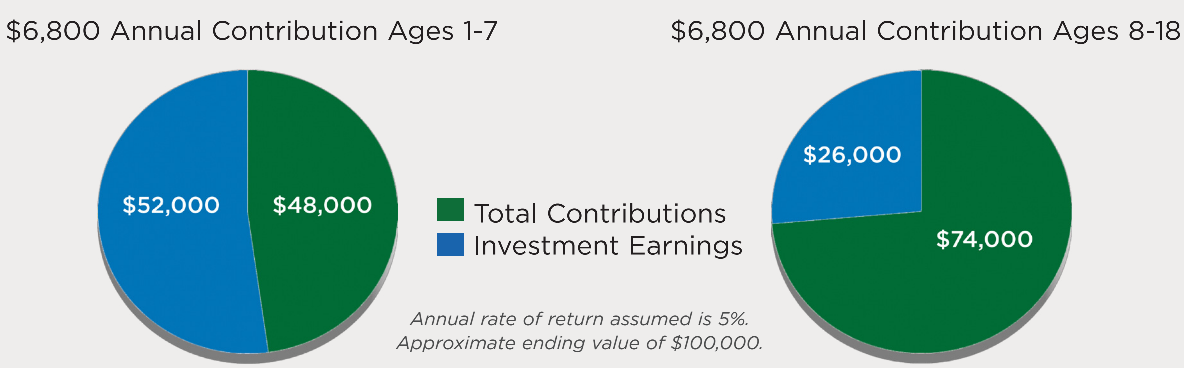
As a result of the Secure Act 2.0, 529 account owners have the ability to rollover unused 529 funds into a Roth IRA, penalty-free, under the beneficiary's name. Many criteria must be met in order to be eligible, such as a $35,000 lifetime limit, the beneficiary must be eligible to make a Roth contribution, and the account must have been opened for a minimum of 15 years. Prior to making such a rollover, we recommend that you consult with your tax advisor for guidance.

SELECTING THE RIGHT 529 PLAN

Once you've decided that a 529 Plan is the appropriate program for your education funding goals, you will need to select a Plan. There are several important variables to consider, including the available investment options, costs, investment performance, specific Plan limitations (such as minimum and maximum contributions) and any state tax benefits available to you if you invest in your resident state's Plan.

A Davenport Financial Advisor can help you assess your needs, develop a reasonable strategy, and assist with selecting a Plan for your child's, grandchild's or your own education.

Saving early pays off by the time your child goes to college:



Annual rate of return assumed is 5%.
Approximate ending value of $100,000.

This illustration is for informational purposes only and is not intended to provide specific financial planning or investment advice. Individual circumstances may vary.

GENERAL COMPARISON OF EDUCATIONAL SAVINGS OPTIONS

	529 Savings Plan	529 Prepaid Plan	Coverdell Education Savings Account	UGMA/UTMA	Parent's Taxable Acct.
Uses	K-12 tuition and Post-Secondary, Qualified Higher Education Expenses (QHEEs) such as tuition, books, room & board and fees. Fees, books, supplies, and equipment required for participation in a certified apprenticeship program. Principal and interest of a qualified education loan of a designated beneficiary or sibling of beneficiary, not to exceed a lifetime limit of $10,000	Purchased in increments of semesters; guarantees to cover undergraduate tuition & fees at in-state rate (Room & board <u>not</u> covered)	Education expenses including tuition, books, room & board for kindergarten through graduate school	Any use that is for the benefit of the child	Unlimited
Types of Schools	K-12 public, private, and religious tuition up to $10,000 per year. College & higher education (in or out-of-state). Certified apprenticeship programs	College & higher education only (in or out-of-state)	All schools including private elementary, private high school and college	Any	Any
Maximum Contribution	Determined by each Plan. **VA**: $550,000; **NC**: $550,000	Amounts vary by state	$2,000 per year per beneficiary under age 18	Unlimited	Unlimited
Income Phaseout	None	None	Phased out for individuals with income between $95K - $110K single; $190-$220K for married couples	None	None
Tax-Deferred Growth	Yes	Yes	Yes	No	No
Tax Treatment	Earnings withdrawn to pay QHEEs federally tax-free and state tax-free in most states. Contributions may be deductible from state income taxes. **VA**: Owner may deduct up to $4,000 per account, with unlimited carry forward. If over 70, unlimited deduction up to VA taxable income with unlimited carry forward. **NC**: No deduction available	Earnings withdrawn to pay tuition federally tax-free and state tax-free in most states. Contributions may be deductible from state income taxes: **VA**: Deduct up to $4,000 per account, with unlimited carry forward. If over 70, unlimited deduction up to VA taxable income with unlimited carry forward. **NC**: Plan not available	Earnings withdrawn for elementary, secondary and higher education expenses are federally tax-free.	Under age 19 or full-time student under age 24: first $1,300 of unearned income is tax-free; next $1,300 is taxed at child's rate; remainder is taxed at the parent's tax rate	Subject to owner's tax rates on dividends, interest and capital gains
Control	Owner maintains control (unless established with UGMA/UTMA monies)	Owner maintains control (unless established with UGMA/UTMA monies)	Beneficiary may assume control at age of majority (18 or 21 in most states)	Beneficiary gains control at age of majority (18 or 21 generally, some states allow up to 25)	Owner maintains control at all times
Ability to Change Beneficiary	Yes; unless established with UGMA/UTMA monies	Yes; unless established with UGMA/UTMA monies	Yes; unless established with UGMA/UTMA monies	No	N/A
Penalties for Non-qualified Expenses	Distribution of earnings is subject to income taxes at owner's rate and a 10% IRS penalty	Distribution of earnings is subject to income taxes at owner's rate and a 10% IRS penalty	Distribution of earnings is subject to income taxes at beneficiary's rate and a 10% IRS penalty	Fiduciary responsibility to be used for child's benefit	None

This information is compiled from sources deemed to be reliable; however, Davenport cannot ensure its accuracy. Please consult your professional tax advisor prior to investing in one of these programs.

- Depending on the laws of the home state of the donor or designated beneficiary, favorable state tax treatment or other benefits offered by such home state may be available only if the donor invests in the home state's 529 Plan.
- State-based benefits should be one of many appropriately weighted factors to be considered in making an investment decision.
- The donor should consult with his or her financial, tax and other advisors about how such state-based benefits would apply to the donor's specific circumstances.
- The donor may wish to consult his or her home state or any other 529 Plan to learn more about their features.

Davenport & Company LLC is not in the business of rendering tax advice. Please consult your professional accounting or legal advisor prior to acting on any information provided by us that may have an effect in these areas.

(804) 780-2000 • www.investdavenport.com • 901 E. Cary Street Suite 1100 • Richmond, VA 23219
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