



## Overview

Although planning to save and invest for your children’s or grandchildren’s anticipated college expenses is simple in concept, the execution can often be confusing and complex. To simplify the process, this document highlights the key items to consider before getting started. When you’re ready, we will create a detailed, customized calculator for you, incorporating the individual facts and circumstances of your family’s education goals, to create a savings plan tailored to your needs.

### What is a 529 plan?

A 529 plan is a state-sponsored education savings plan. It offers tax benefits to help parents, relatives and friends invest for a student’s future education expenses. Residents of any state can contribute to a 529 plan of their choice for a student of any age.



### Calculating the costs and funding the plan

The earlier you begin saving for college, the longer you’ll save—and the more your money can benefit from tax-advantaged growth potential.

The first step is to figure out the likely costs. With a few key variables, such as the child’s age and the selection of either a private or in-state public school, we can calculate the anticipated annual costs for each year of college.

Then, based on the planned funding sources, how they will be invested, and who will be providing them (including how much debt the will student assume, if any), we can calculate how much money needs to be set aside either monthly, annually, or in a single upfront lump sum.

Once the funding plan has been set, the next step is to determine how the savings will be invested to grow safely.

Child’s current age	PUBLIC COLLEGE			PRIVATE COLLEGE				
	Total four-year cost	Monthly investment to pay:			Total four-year cost	Monthly investment to pay:		
		50%	75%	100%		50%	75%	100%
Newborn	\$221,667	\$290	\$434	\$579	\$503,186	\$657	\$986	\$1,314
3	\$191,485	\$332	\$498	\$664	\$434,671	\$754	\$1,131	\$1,508
6	\$165,412	\$396	\$594	\$792	\$375,485	\$898	\$1,348	\$1,797
9	\$142,889	\$502	\$753	\$1,004	\$324,358	\$1,139	\$1,709	\$2,279
12	\$123,433	\$714	\$1,071	\$1,429	\$280,193	\$1,621	\$2,432	\$3,243
15	\$106,626	\$1,352	\$2,028	\$2,704	\$242,041	\$3,069	\$4,603	\$6,138

Source: “College Planning Essentials,” J.P. Morgan Asset Management, 2018-2019.

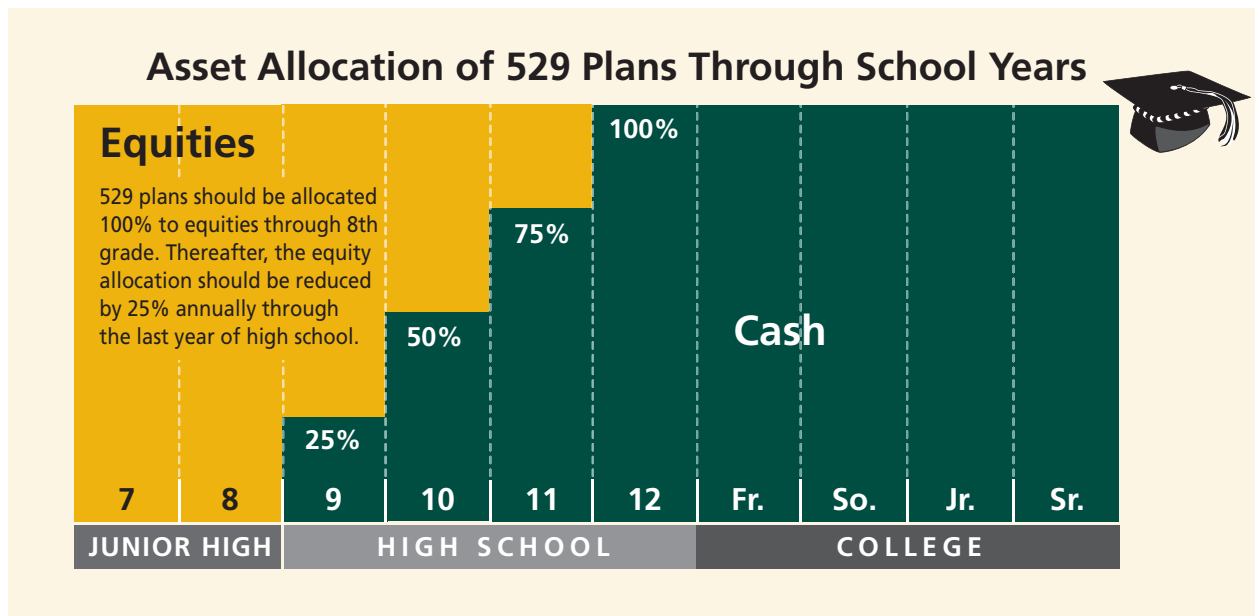
## Recommended guidelines for investing funds earmarked for college

In general, we advocate investing funds to cover foreseeable capital needs over the next five years in Treasuries, investment-grade bonds, or an equivalent bond fund with a corresponding maturity, while investing all money that will not be needed for at least five years in equities to maximize growth. However, we apply this methodology slightly differently with respect to funding college costs, tying the allocation of investments to the student's schooling timeline.

At the start of a child's freshman year in high school, we reduce equity investments by the estimated cost of the freshman year in college. We do the same in the sophomore year of high school to earmark funds for the sophomore year of college, and so on.

The following chart shows the recommended changes in asset allocation for each year, beginning when the child is in 7th grade, when there will be 0% cash and 100% equities. Each year, we step this up incrementally, so that the allocation is the exact opposite by the child's senior year of high school, when the allocation will be 100% cash and 0% equities. We then maintain that allocation through the student's final year of college.

While no formula is guaranteed to produce the optimal dollar outcome, any formula that takes emotion out of the equation—not to mention the temptation to try to time the market—is better than winging it.



## Top benefits of 529 plans

A 529 plan offers built-in tax advantages and flexibility to meet your education savings goals, and it's a very hands-off way to save for education. Most plans allow you to "set it and forget it" with automatic investments made from a linked bank account or a payroll deduction plan. These are some of the top benefits:



### 1 Tax-deferred growth

Although contributions are not deductible at the federal level, 529 plan earnings are federally tax-free and will also not be taxed when the money is withdrawn to pay for college. This means your investment can grow at an even faster pace than it could in a taxable account. In addition to the federal tax savings, over 30 states currently offer a full or partial tax deduction or credit for 529 plan contributions.



## 2 Tax-free withdrawals

You pay no federal taxes on withdrawals as long as they are used for qualified education expenses.<sup>1</sup> The tax reporting is simple, and contributions to a 529 plan do not have to be reported on your federal tax return. You won't receive a Form 1099 to report taxable or nontaxable earnings from the plan until the year you start making withdrawals.



## 3 Special gift-tax exclusion

You can contribute a lump sum of \$75,000 (\$150,000 per couple) for each beneficiary in a single year without incurring gift tax.<sup>2</sup> This is sometimes referred to as "superfunding."



## 4 Account control

As the account owner, you maintain control over the funds in the account. IRS rules authorize you to make the initial investment selection and allow you to change it twice a year or upon a change in beneficiary. You can change the beneficiary to another qualified family member at any time. You can also withdraw the funds at any time, although taxes and penalties may apply.



## 5 Flexibility

The beneficiary can use funds for a broad range of education expenses at accredited universities and colleges, approved vocational programs, and K-12 schools (subject to certain limitations).<sup>3</sup>



## 6 Financial aid

529 plans have a low impact on financial aid. Only 5.6% of the value of the account is considered a parental asset for financial aid calculations. There is no impact at all if the account is owned by another relative, such as a grandparent. However, withdrawals from accounts not owned by the student or the student's parents are treated as income to the student.

## Implementation

The easiest way to save for college is to set up a 529 tax-advantaged college savings plan for each child.

### Individual state plans

Nearly every state has at least one 529 plan available. In Colorado, for example, there are three "direct-sold" 529 plans, the largest of which is the Colorado Direct Portfolio College Savings Plan, managed by Vanguard ([CollegelInvest.org](http://CollegelInvest.org)). If you are a Colorado taxpayer, every dollar you contribute to a CollegelInvest 529 plan can be deducted on your Colorado state income tax return. Each state has its own tax rules that apply to 529 plan contributions and withdrawals.

### 529 plans can pay off

If saving for college is a top priority, a 529 plan may be a good choice. According to a recent study, parents with a 529 plan save 68% more than those who simply use a savings account.<sup>4</sup>



<sup>1</sup> The earnings portion of a nonqualified withdrawal is subject to federal and state income tax and a 10% penalty. State tax treatment of earnings may vary. Check with your tax adviser for rules on your state's tax treatment.

<sup>2</sup> To qualify for the special gift-tax exclusion, you need to file a gift-tax return to treat the gift as if it were made in equal payments over five years. To avoid gift tax, you should make no additional gifts to the beneficiary during those five years.

<sup>3</sup> The 2018 change to the federal tax law expanded the qualified use of 529 savings accounts by including K-12 tuition expenses, with a limit of \$10,000 per year, per beneficiary. However, individual states may or may not adopt this expanded definition of qualified withdrawals. You should consult with your tax adviser to discuss your individual situation.

<sup>4</sup> Source: Data from Sallie Mae®, "How America Saves for College: Sallie Mae's National Study of Parents with Children Under Age 18," 2014.

**NOTE: We are not tax advisers, and it is essential that you consult your tax professional to determine how 529 contributions are treated in your state, particularly with regard to your personal situation.**

### Schwab plans

In addition to individual state plans, Schwab has a 529 plan sponsored by Kansas. Residents of any state may open accounts in this plan.

**NOTE: Non-Kansas residents should consider any potential benefits their own state's plan, if any, may offer its residents.**

### Setup decisions

There are three decisions to make when setting up a Schwab 529 plan.

#### 1 Select your portfolio option: Static or aged-based

An aged-based portfolio uses an autopilot "glidepath" to transition incrementally from equities to bonds and cash based on the beneficiary's age and anticipated college start date. Although this option is administratively convenient, we typically do not recommend it, because its allocations to equities are higher than what we advise in the high school and college years. Instead, we recommend "static" portfolios that we oversee and rebalance annually.

#### 2 Determine your risk level: Aggressive through conservative

You can choose from seven predefined "risk tolerance" levels, with varying allocations to stocks, bonds and money market funds. For example, the "aggressive" portfolio is 95% stocks and 5% money markets, while the "money market" portfolio is 100% money markets.

#### 3 Choose your fund type: Index funds or actively managed funds

We only use index funds, because of the significantly lower management fees and expenses compared to actively managed options. The Schwab 529 Plan has no account service or enrollment fee, although there is an annual portfolio fee of 0.25%.

### 2 easy ways to save

- 1 Set up automatic annual dollar increases to your scheduled monthly investment contributions to help keep pace with inflation and your investment goals.
- 2 Invite family and friends to make gift contributions on birthdays, graduations and other special occasions through Ugift at [ugift529.com](http://ugift529.com). This free, easy-to-use online service deposits gifts directly into your Schwab 529 plan account.



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