



## Overview

In 18 years, four years of private college is projected to cost over \$536,000, according to J.P. Morgan Asset Management (2022). 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.

The following table shows the suggested monthly and lump-sum investments needed to pay the full cost of private or public college based on the child's current age.

Child's current age	PUBLIC COLLEGE		PRIVATE COLLEGE	
	Monthly investment	Lump sum investment	Monthly investment	Lump sum investment
Newborn	\$615	\$82,457	\$1,401	\$187,845
3	\$705	\$84,835	\$1,606	\$193,263
6	\$840	\$87,282	\$1,915	\$198,837
9	\$1,066	\$89,800	\$2,428	\$204,573
12	\$1,517	\$92,390	\$3,456	\$210,473
15	\$2,871	\$95,055	\$6,540	\$216,545

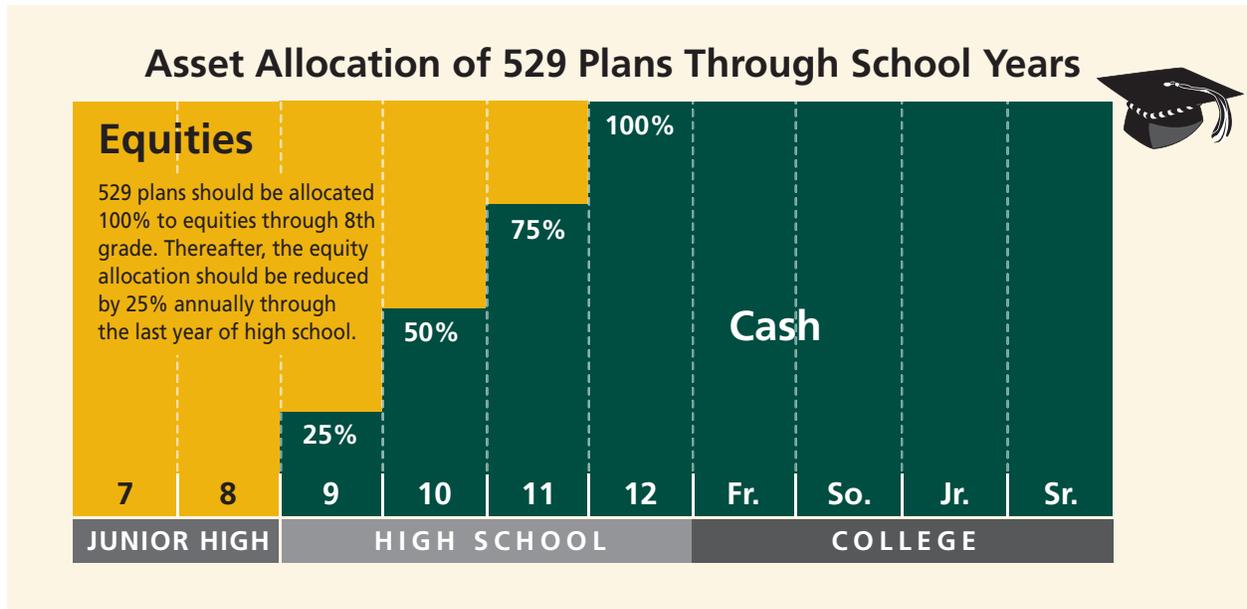
Source: "College Planning Essentials," J.P. Morgan Asset Management, 2022.

## Recommended guidelines for investing funds earmarked for college

Our investment methodology for funding college costs ties the allocation of investments to the student's schooling timeline. From inception through 8th grade, the allocation is 100% equities. 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 our recommended changes in asset allocation for each year.



## Top benefits of 529 plans

Notably, 529 plans have a low impact on financial aid and offer significant flexibility, since they can be used for a broad range of education expenses. These are some of the top tax benefits of a 529 plan:



### 1 Tax-deferred growth

Earnings from a 529 plan are tax-free at the federal level. Additionally, more than 30 states currently offer a full or partial tax deduction or credit for 529 plan contributions.



### 2 Tax-free withdrawals

There are no federal taxes on withdrawals from 529 accounts owned by a student or the student's parents as long as they are used for qualified education expenses.<sup>1</sup> However, withdrawals from accounts owned by other individuals, such as grandparents, are treated as income to the student.



### 3 Special gift-tax exclusion

You can contribute a lump sum of up to \$80,000 (\$160,000 per couple) to a child's 529 account in a single year without incurring the federal gift tax.<sup>2</sup> This is sometimes referred to as "superfunding." If you do this, you may not give any more tax-free gifts to the child for the next five years.

<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 having to pay gift taxes, you should make no additional gifts to the beneficiary during those five years.



#### 4 Account control

As the 529 account owner, you maintain control over the account funds. 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 account beneficiary can use account 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

Only 5.6% of the value of a parent-owned 529 account is considered a parental asset for financial aid calculations, so 529 plans have a low impact on financial aid awards. There is no impact at all if the account is owned by another relative, such as a grandparent.

## Implementation

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

### 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.

**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

Schwab offers 529 savings plans for individuals in every state. There are three decisions to make when setting up a Schwab 529 plan.

#### 1 Select your portfolio option: static or age-based

Although the age-based option is administratively convenient, its allocations to equities are higher than what we advise in the high school and college years. Therefore, we recommend a static portfolio, which we oversee and rebalance annually.

#### 2 Determine your risk level: aggressive to conservative

You can choose from seven predefined risk tolerance levels. For example, the “aggressive” portfolio is 95% stocks and 5% money markets, while the “money market” portfolio is 100% money markets.

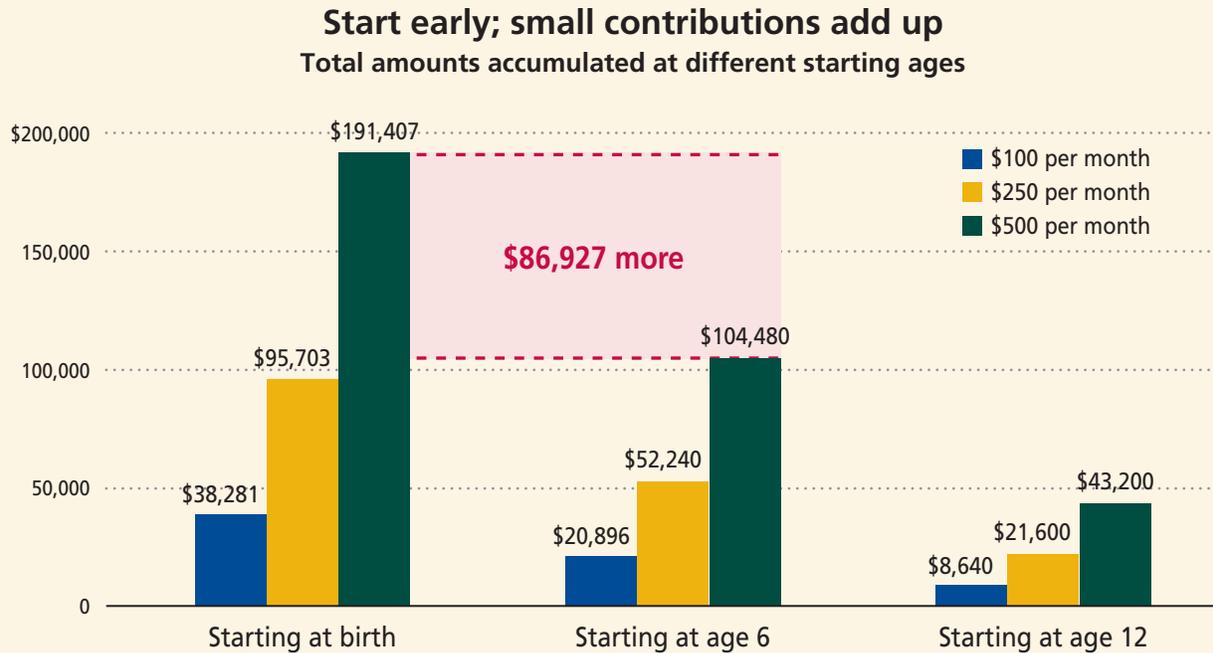
#### 3 Choose your fund type: index or actively managed

We only use index funds because of the significantly lower management fees. The Schwab 529 plan has no account service or enrollment fee, although there is an annual portfolio fee of 0.25%.

<sup>3</sup> A 2018 change to the federal tax law expanded the qualified use of 529 savings accounts to include K-12 tuition expenses, with a limit of \$10,000 per year for each beneficiary. However, many states, including Colorado, have not adopted this expanded definition of qualified withdrawals. Consult with your tax adviser to discuss your individual situation.

## 529 plans pay off if you start early

The earlier you start investing in a 529 plan, the better. The following chart demonstrates the dramatic differences in savings depending on when you start.



Source: "College Planning Essentials," J.P. Morgan Asset Management, 2022.

### 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](https://ugift529.com). This free, easy-to-use online service deposits gifts directly into your Schwab 529 plan account.

May 2022



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