

Can Exchange Manage 529 Plans?

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When working with clients and prospects we're often asked, "can you manage my child's 529 plan?" A 529 plan is a tax-advantaged savings plan created to help individuals save for future education costs. When picking a 529 plan, you'll have to choose between an education savings plan or a prepaid tuition plan.

While we don't manage these plans, we can provide guidance in choosing a plan, understanding how they operate, their tax implications, and future distributions.

Education Savings Plan

The education savings plan is the more popular of the two options. This plan is state-sponsored and tax-deferred. Additionally, withdrawals are tax-free if used for qualified education expenses. Qualified expenses include:

- Higher education
- Room & board (on campus or off campus)
- Meal plans
- School supplies (e.g. books, computers, specific software, etc.)
- Student loan payments
- K-12 tuition and fees

Essentially, most school-related expenses qualify for tax-free withdrawals. When choosing this plan, you'll be offered a limited investment menu often consisting of mutual funds and exchange-traded funds. You may also have the option of building an age-based portfolio. This means as you near withdrawal age, your investments will become more conservative.

Prepaid Tuition Plan

Prepaid tuition allows savers to pay current tuition rates for future college expenses, hedging against tuition inflation. You may either pay a lump sum or monthly installments for credits, units, or yearly tuition. While this 529 plan is state or university/college sponsored, it does have some restrictions. Only nine states and specific higher education institutions still accept this plan.

The purchaser of a prepaid plan does not choose where the money is invested. Either the state or private institution where you bought the plan will invest your money for you. While that may sound like a disadvantage, it means that they will cover the difference if investment performance doesn't cover the future tuition cost.

Additionally, you are not allowed to use this plan for K-12 education, room/board expenses, and school supplies. If you use the prepaid tuition for the approved qualified expenses (e.g. school tuition and fees), you can withdraw this money tax-free.

The Bottom Line

While we don't manage 529 plans, we direct our clients to pick a plan aligned with their long-term financial plan. Saving for the future is a big component of financial planning, consider scheduling a discovery meeting with one of our advisors to develop a secure path to reach your financial goals.