

COLLEGE

Half of Americans Don't Know What a 529 Plan Is. Are You Missing Out?

Despite the rising cost of college, half of Americans don't know what a 529 plan is, missing out on the chance to take advantage of this valuable savings tool.



(Image credit: Getty Images)

A 529 plan can be a valuable tool to save for college, but many Americans aren't utilizing this tax-advantaged savings account. In fact, a surprising number of people don't even know what a 529 plan is, even as college gets more and more expensive with each passing year. If you're saving for your children's or grandchildren's higher education, take the time to learn about a 529 plan and how it can benefit you and your family.

529 plans

A 529 plan is a tax-advantaged savings account designed to be used for a beneficiary's education expenses. These plans allow a contributor to prepay a beneficiary's qualified higher education expenses at an eligible educational institution or to contribute to an account for paying those expenses. And while 529 contributions must be made with after-federal-tax money, the contributions grow free from federal or state tax. (Many states also offer a tax deduction to residents contributing to their own state's plan.)

Andy Esser, an Edward Jones Financial Advisor in Durham, NC said in a statement: “As a financial advisor and parent, I see first-hand the varying benefits of 529 funds – no matter what path a child may choose. Educating families on those benefits leads to more impactful results.”

But many are missing out on the benefits of a 529 plan, including tax-free growth, gift tax benefits, the opportunity to rollover unused funds into a Roth IRA and the ability to use the 529 grandparent loophole to fund a grandchild’s education without impacting their financial aid eligibility.

According to a study from Edward Jones, 50% of Americans don’t know what a 529 plan is. More specifically, out of all Americans who are actively saving for a child’s education, 32% are unaware of what a 529 plan is, and 60% do not feel they’re saving enough to reach their goals for future education expenses.

The study also found that to reach education savings goals, Americans have turned to several other strategies, including using a personal savings account (35%), scholarships (18%), federal or state financial aid (18%) and getting a job at a school or university for tuition benefits (9%). The rising cost of tuition, rulings about college admissions criteria and the increase in applicants at numerous colleges are all factors driving individuals to save for their children’s education.

Surprisingly, however, 84% have not or do not plan to invest in a 529 plan as part of their education savings strategy.

Rising cost of college

College tuition has indeed skyrocketed. According to Best Colleges, using data from the National Center for Education Statistics, the average cost of college tuition in the U.S. for undergraduate students has more than tripled over the last 58 years, rising from \$4,648 in 1963 to \$14,307 in 2021, after accounting for inflation. And from 2010 to 2021, tuition and fees rose by 17%, jumping from \$12,214 to \$14,307.

Furthermore, the College Board reports that in 2022-23, the average cost of tuition and fees for a full-time undergraduate student at a public four-year in-state college was \$10,940, while the average cost for a student at a public four-year out-of-state school was \$28,240.

Over 43 million Americans carry federal student loan debt, with an average balance of almost \$40,000. By starting early and saving for your child's or grandchild's college in a 529 account, you can help them avoid the heavy burden of student loans later in life. The sooner you start, the better.

Kiplinger

Kiplinger is part of Future plc, an international media group and leading digital publisher
© 2024 Future US LLC

