

EDUCATION

College Costs 101: What are 529 Plans?

May 15, 2014



Tabulating the costs of a college education can be overwhelming for new parents, so overwhelming, in fact, that many choose not to think about it at all, assuming the situation will resolve itself in time. Many parents wind up turning to student loans as the solution to finance a college education, often resulting in a shiny new diploma accompanied by a mountain of debt. There might be a way out, even if you don't have the secret to picking winning lottery numbers. For many college-bound children and their parents, one real-world option for avoiding potential future college debt lies in these three numbers: 529.

What Is a 529 Plan?

So what exactly is a "529 plan?" The name stems from a section in the Internal Revenue Code. A [529 plan](#), legally known as a "qualified tuition plan," can be sponsored by states, state agencies or educational institutions. These programs allow parents, grandparents and even other family members and friends to help a designated beneficiary (child) save

for college costs. One of the appealing features of a 529 savings plan is that money invested grows free of federal income tax when withdrawn for qualified higher education expenses such as tuition, books, room and board. Depending on where you live, you may be able to take advantage of state tax benefits, too.¹

Tax benefits of 529 plans are conditioned on meeting certain requirements. Federal income tax, a 10% federal tax penalty and state income tax penalties apply to non-qualified withdrawals of earnings. Generation-skipping tax may apply to substantial transfers to a beneficiary at least two generations below the contributor. See a 529 plan disclosure document for complete information.

Spring marks a time of graduations and also a time for those with younger children to think about ways to start saving now for the future. Designated as “529 Day,” May 29 (5/29) marks an appropriate juncture to explore the potential benefits of 529 college savings plans. [perfect_quotes id=”3192”]

It’s never too early to think about saving for college, according to Roger Michaud, senior vice president of North American Advisory Services and Director of College Saving Plans at Franklin Templeton and also chair Savings Foundation chair emeritus.

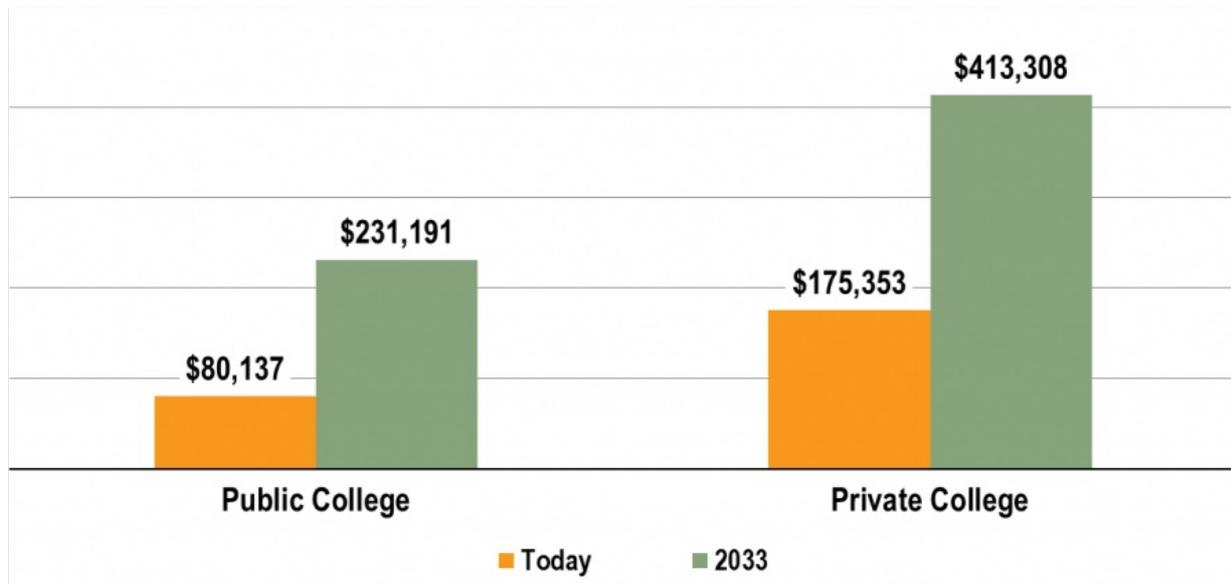
“Parents and grandparents who can squeeze even a few extra dollars out of their budgets for college savings plans will help their children set off toward a brighter future, possibly even one free, or mostly free, of debt. Total US student loan debt is estimated at over \$1 trillion and eclipses credit card debt,² a crushing amount. It makes sense to plan as early as possible to help reduce this burden in the future,” said Michaud.

The cost of college has been escalating faster than inflation, and beyond the reach of many American parents who hope to fund a child’s higher education. Including tuition, room, board and expenses, the average total cost in 2013–2014 for an in-state student at a four-year public college is \$18,391 per year, and for a four-year private college, it is \$40,917 per year.³

Says Michaud, “Imagine what your children could do if they did not have the burden of student loan debt. Buy a house. Start a family. Save for their retirement. And, maybe, not move back in with you after they graduate!”

The Rising Cost of College Education

Projected Cost of a Four-Year College Education



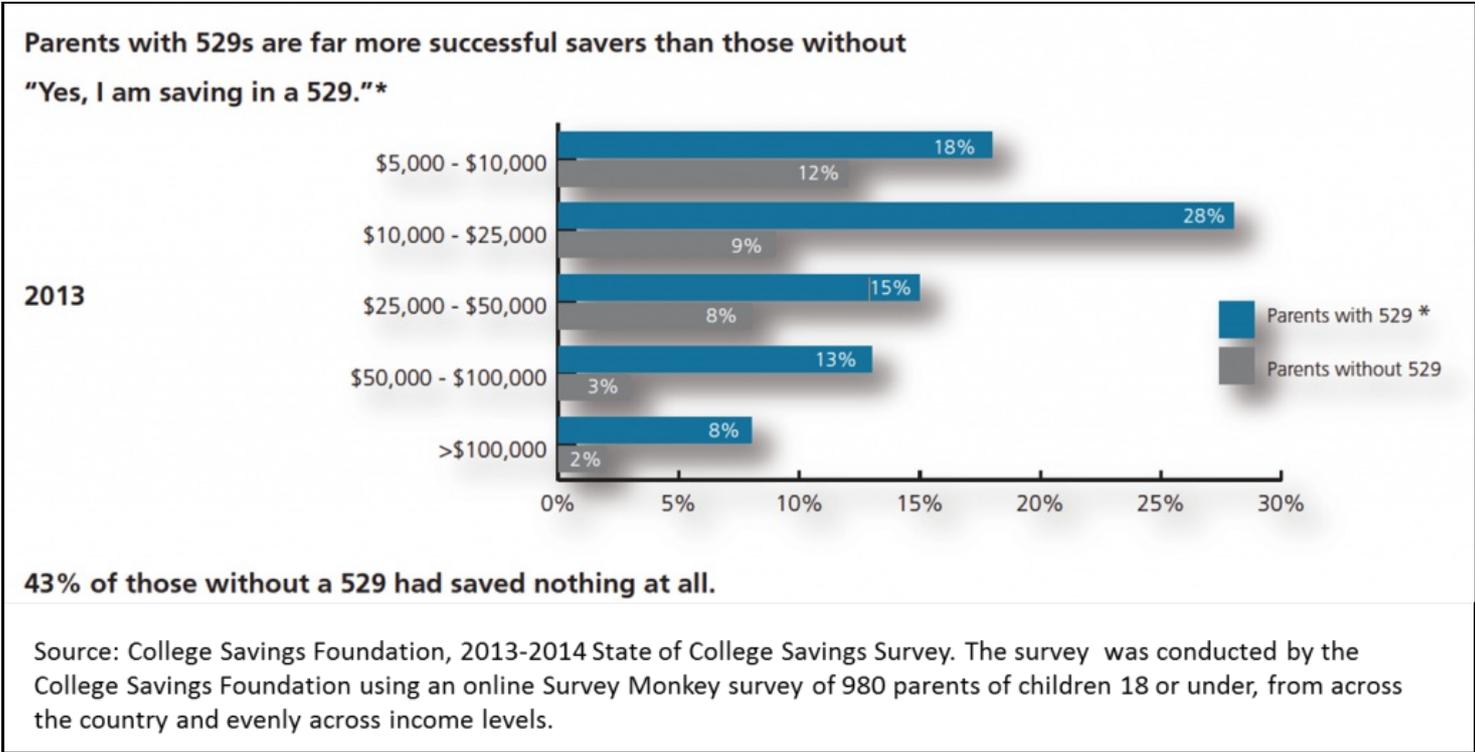
Source: The College Board, *Trends in College Pricing* © 2013 The College Board, www.collegeboard.com. Projected cost based upon child's entrance to a four-year public or private college. As reported by the College Board for 2013-14, the \$18,391 public college cost and \$40,917 private college cost include tuition, fees, room and board. College cost inflation figures of 5.73% (public) and 4.62% (private) are based on the 10-year average annual increase in public and private college costs respectively, as reported by The College Board for 2013-14.

Parents Getting the Message

The good news is that many parents are getting the message that it pays to save. The College Savings Foundation's 2013-2014 State of College Savings Survey saw the highest percentage of parents saving (55%) since the survey was first launched in 2007. At the same time, parents are saving greater amounts: 53% have saved at least \$5,000 per child for college, up 8% from last year and the highest level in seven years.⁴ Savvy habits—like starting early and saving consistently—seem to be contributing to this increase, according to the Foundation.

"Parents are becoming more aware of the need to save, and more are making 529s their preferred vehicle," according to Michaud. "Successful savers know starting early is key. And, working with an advisor can be a valuable exercise to help parents better understand different college funding options, as well as helping them stay on track in reaching their goals."

The College Savings Foundation’s survey showed that knowledge—at least about 529s—is savings power. When asked if they knew what a 529 was, parents who said that they were saving in a 529 were more successful savers than those who didn’t know about them or use them. You can see in the graphic below that 28% of 529 owners had saved between \$10,000 and \$25,000, compared to only 9% who saved that much without one. And, 43% of parents without a 529 plan had saved nothing at all⁵



The bottom line? Financing a college education doesn’t have to result in leveraging a student’s future.

Watch our short video, “[5 Strategies of Successful College Savers](#),” to see more strategies that can help in the quest. Whether you are just getting started, or if you have been saving for years, these are proven steps that can work for you.

Learn about [529 College Savings Plans](#) at Franklin Templeton and talk to an advisor for savings ideas and strategies that are best for you and your family.

How are you saving for college? Join the discussion on our [Facebook page](#).

What Are the Risks?

All investments involve risks, including potential loss of principal.

Investors should carefully consider 529 Plan investment goals, risks, charges and expenses before investing. To obtain an Investor Handbook, which contains this and other information, talk to your financial advisor or call Franklin Templeton Distributors, Inc., the manager and underwriter for the Plan at 1-800-818-4030. You should read the [Investor Handbook](#) carefully before investing and consider whether your, or the beneficiary's, home state offers any state tax or other benefits that are only available for investments in its qualified tuition program.

1. It's important to remember that, as with any investment, principal value may be lost, and investing in the plan does not guarantee admission to college or sufficient funds for college. There is no federal or state guarantee of investments in the plan.
2. Source: Consumer Financial Protection Bureau, data as of May 2013.
3. Source: Trends in College Pricing. © 2013 The College Board, www.collegeboard.org. Projected cost based on child's entrance to a four-year public or private college, including tuition, fees, room and board.
4. Source: College Savings Foundation, 2013–2014 State of College Savings Survey. The survey was conducted by the College Savings Foundation using an online Survey Monkey survey of 980 parents of children 18 or under, from across the country and evenly across income levels.
5. Ibid.

Posted in [Education](#) Tagged [529 college plans](#), [529 day](#), [college savings foundation survey](#), [franklin templeton college savings plans](#), [roger michaud](#), [tax benefits of college savings plans](#), [US student loan debt](#), [ways to save for college](#), [what is a 529 plan](#)

Important Legal Information

FINRA's BrokerCheck

You can check the background of your investment professional on FINRA's [BrokerCheck](#).

Links can take you to third party sites/media, directly or through new browser windows. We urge you to review the privacy, security, terms of use, and other policies of each site you visit. You use any third-party site, software, and materials at your own risk. Franklin Templeton does not control, adopt, endorse or accept responsibility for content, tools, products, or services (including any software, links, advertising, opinions or comments) available on or through third party sites or software.

Franklin Templeton welcomes your feedback on this blog. To keep the conversation respectful and focused, please follow our current [Commenting Guidelines](#). We review comments and reserve the right to block any comment or commenter, including those that we may deem inappropriate or offensive. We may block any comment or commenter whose posts include investment testimonials, advice, or recommendations, or advertisements for products or services, or other promotional content.

Questions or comments about your Franklin Templeton account or customer-service issues? Please [contact us directly](#) but never include account or personal financial information in your comments.

The comments, opinions and analyses are the personal views expressed by the investment manager and are intended to be for informational purposes and general interest only and should not be construed as individual investment advice or a recommendation or solicitation to buy, sell or hold any security or to adopt any investment strategy. It does not constitute legal or tax advice. The information provided in this material is rendered as at publication date and may change without notice and it is not intended as a complete analysis of every material fact regarding any country, region, market or investment.

All investments involve risk, including possible loss of principal.

Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. To obtain a summary prospectus and/or prospectus, which contains this and other information, talk to your financial advisor, call us at (800) DIAL BEN/342-5236 or visit franklintempleton.com. Please carefully read a prospectus before you invest or send money.

Data from third party sources may have been used in the preparation of this material and Franklin Templeton Investments ("FTI") has not independently verified, validated or audited such data. FTI accepts no liability whatsoever for any loss arising from use of this information and reliance upon the comments, opinions and analyses in the material is at the sole discretion of the user.

Franklin Templeton Distributors, Inc.

© 2017. Franklin Templeton Investments. All rights reserved.

Using this site means you agree to our [Terms of Use](#)

[Click to view our Privacy Policy](#)