Investable Ideas

Using a 529 plan for K-12 costs: 4 things to consider

As a result of the Tax Cuts and Jobs Act, 529 savings plans aren't just for college expenses anymore. Families with children in grades K-12 can now take federal tax-free withdrawals[1] of up to $10,000 per year to pay for public, private, religious elementary or secondary school tuition. However, whether K-12 tuition will qualify for state tax benefits is still being determined on a state-by-state basis.

Either way, saving for education with a 529 plan can be beneficial for families:

- Earnings grow tax-deferred
- Withdrawals are tax-free as long as they're applied toward qualified educational expenses[1]

Ensuring your money can last from the first day of kindergarten to the last day of college requires a diligent and consistent saving strategy. Otherwise, families may find themselves with a shortage of college funds after using their savings on K-12 expenses.

4 things to keep in mind as you consider utilizing your 529 for K-12 expenses

1. It's more important than ever to start early.
On average, families open 529 accounts when their children are 7 years old.[2] This leaves only 10 years to save for college, but far less time to save for K-12 expenses.

2. Consider increasing your contributions.
By tapping 529 plan funds for K-12 expenses over the years, you could potentially run out of money before your child enters college. If paying for K-12 expenses is a priority for you, look for ways to maximize your contributions.

3. Encourage family members to contribute.
Anyone can contribute to your child's 529 plan, or they can open a 529 themselves with your child as the beneficiary. A 529 plan can benefit legacy and estate planning by allowing contributions with no gift tax.[3]

4. Make sure your investment matches your time horizon
Many 529 plans feature age-based investment options which become more conservative as the college start date draws closer. But if you're saving for K-12 expenses in the same account as college expenses, you may need to reassess your investment strategy.

Talk to your advisor

Using a 529 plan to pay for K-12 expenses can be a great benefit for families, but it requires careful planning to make sure the account can keep pace with several years' worth of educational costs. Talk to your financial advisor to be sure your saving strategy is tailored for your goals, and consult a tax advisor for specific questions about your federal and state taxes.

1 Earnings on non-qualified withdrawals may be subject to federal income tax and a 10% federal penalty tax, as well as state and local income taxes. Tax and other benefits are contingent on meeting other requirements and certain withdrawals are subject to federal, state, and local taxes.
2 Source: Ascensus College Savings platform as of Dec. 31, 2016.
3 Contributions are up to $15,000 per year (or $30,000 for a married couple) with no gift tax – or a single contribution up to $75,000 per beneficiary (or $150,000 for a married couple) that is treated as if it were spread over five years. If the contributor dies during the five-year period, a prorated amount will revert back to the contributor's taxable estate. For more information, refer to Internal Revenue Service Publication 970. Contact your tax professional about your individual situation.

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