

Future Education Expenses

People use their savings and investments to plan for their future. As higher education costs continue to rise in the United States, saving for it has never more critical. In fact, children who know there is a higher education savings plan set up for them are three times more likely to continue their education after school. They are also four more times likely to finish their higher education. There are many ways people can choose to save for college, but a popular choice is a **529 plan**.

What is a 529 plan?

Higher education is getting more and more expensive every year, which is why saving for future education needs can be incredibly beneficial. A 529 plan is a special investment account that is used specifically for post high school education expenses. This can include college and/or vocational training.

What can I use it for?

Some examples of qualified expenses include: tuition, fees, books, supplies, computers, room and board, and internet access. You can use it at any accredited institution, whether it's a college, university, or vocational school. Students are even able to use it for school outside of the United States.

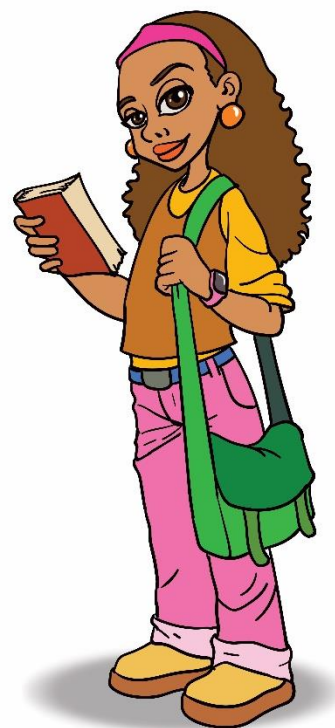
Who can open and contribute to a 529?

Anyone over the age of 18 can open a college savings account for anyone they want. The account owner and future students just need a valid social security or taxpayer identification number. This means parents, legal guardians, grandparents, aunts, uncles, etc. can decide to open one for any loved one they might see themselves giving money to at some point.

Once the account is open, anyone can contribute to it. For example, let's say your grandparents opened a 529 plan for you when you were born. The account does not only take contributions from your grandparents- others can contribute to it as well, maybe for a birthday or holiday gift. The more money you put into the account, the bigger the returns.

Are there any tax breaks?

Yes! These special types of savings account are tax free for any earnings that you make. Essentially, you do not have to pay taxes on the additional money that comes from the investments. You can also withdraw the money from the account tax free, as long as it's used for educational purposes. In Illinois, you also get additional tax benefits, like a special tax deduction and paying no state income tax on your earnings or withdrawals as well.



Where do people go to get a 529 plan?

There are many options. Almost every state has their own plan, and you often don't have to live in the state to use their 529 plans. Here in Illinois, the State Treasurer's office runs the 529 program called Bright Start and Bright Directions. You always have an option of managing your investments yourself but can choose to have a fund manager do it for you.

Do these accounts actually make money?

Since it is an investment account, money grows over time. The below graph shows how much you can make in a 529 plan, with the initial investment of \$2,500 and an assumed annual return rate at 5%. (However, your initial investment can be as low as \$25 to open an account!)

