

HARVARD, STANFORD OR BUST

FOLLOW UP AND FREQUENTLY ASKED QUESTIONS



WHAT IS THE AVERAGE ROI YOU SEE ON A STANDARD 529 PLAN?

The return on investment of 529 plans is principally based on the underlying performance of the specific portfolios that comprise the selected plan and the investment horizon (the length of time an investor is aiming to maintain their portfolio before selling). So, there is actually no accurate way to determine an average ROI on all 529 plans as a college savings vehicle.

However, when considering a 529 plan, it is important to consider not only the rate of return but also the tax savings associated with the plan, which are determined on a state by state basis. These tax savings often make the purchase of a 529 plan a worthwhile investment when saving for future education.

WHAT IS THE AVERAGE COLLEGE TUITION INFLATION RATE WE SHOULD BE USING?

According to The College Board®, the average 2014-2015 tuition increase was 3.7 percent at private colleges, and 2.9 percent at public universities. However, looking back at the last decade, the 10-year historical rate of increase is approximately 5 percent. So, we generally recommend taking the more conservative approach in determining what your student will need for tuition when they get to college.

WE'VE LOOKED INTO 529 PLANS AND KNOW THAT YOU CAN USE AN ADVISOR OR GET A PLAN DIRECT FROM THE STATE. WHAT IS THE ADVANTAGE OF THE ADVISOR SOLD PLAN, WHETHER THAT'S FROM CTS FINANCIAL GROUP OR SOME OTHER FIRM?

The most important benefit to purchasing an advisor sold plan is that you will be receiving advice from a financial professional that can extend beyond planning for college. We can help to match the right 529 plan to your particular investment goals and risk preferences and help to coordinate college planning with your other financial objectives, such as meeting your retirement goals or minimizing potential estate taxes.

SHOULD I EXPECT TO PAY FOR 100% OF MY CHILD'S TUITION, ROOM AND BOARD?

In short, yes. You should be prepared to pay for 100% of tuition, room and board. Scholarships can be very difficult to obtain, and your Expected Family Contribution (EFC) may be higher than you anticipate. The EFC is one of the most important concepts to understand if you plan to apply for financial aid. EFC is the minimum amount a family is expected to pay toward the cost of college and is primarily based on the assets and income of the parents and student.

A student's eligibility for need-based financial aid is determined by a simple need analysis formula that subtracts the student's expected family contribution (EFC) from a college's total cost of attendance to determine financial need (cost of attendance – EFC = financial need). If a student's EFC is less than a college's cost of attendance, then the student qualifies for need-based financial aid.



WE KNOW THAT SCHOLARSHIPS ARE UNLIKELY, BUT WHAT IF OUR STUDENT DOES GET ONE AND WE DON'T USE ALL THE MONEY WE'VE PUT INTO A 529? IS THERE A BIG PENALTY?

In general, the earning portion of a non-qualified withdrawal is subject to a 10% withdrawal penalty. However, there are exceptions to the penalty rule, including:

- If the student receives a scholarship
- If the beneficiary dies or becomes disabled
- If the student decides to attend a US Military Academy
- If the student receives educational assistance through a qualifying employer program

In all of these cases, earnings are subject to tax as ordinary income at your tax rate.

ADDITIONAL IMPORTANT 529 PLAN POINTS TO NOTE INCLUDE:

- A 529 plan can be used to fund another child in the household's college education
- A 529 plan can be used for post-college/graduate education
- A 529 plan can be used to pay for up to \$10,000 of private elementary and high school tuition annually

SOURCES

1. <https://www.savingforcollege.com>
2. <https://www.collegeboard.org>
3. <https://nerdwallet.com>

Disclosures

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