ANCORA

ADVISORS

MAY 29 – THE SAVINGS HOLIDAY

By,
John Kane
Vice President, Private Client Advisor
June 2015

Some things just make themselves too easy to pass up for being recognized as "National Holidays." May 29th is no different, and coincidently enough is now recognized, by the industry at least, as National 529 College Savings Day. In light of this newly minted "holiday," we thought this might be a good opportunity to bring to light a perplexingly underused investment tool; the 529 college savings plan. Recent studies have indicated that only about one out of three Americans are utilizing this tax effective vehicle, even though many states offer income tax deductions or credit, based on your contributions. Not only that but there are no income limitations and earnings are not taxed when the assets are used to pay for eligible college expenses.

The current refrain among college graduates is that many are coming out of school with no immediate job opportunities and are drowning in tuition debt. Similarly, parents of young children and even grandparents, have serious concerns about future tuition costs and their offspring becoming part of the difficult student debt cycle. As a frame of reference, between the 2014 and 2015 school year, the average published tuition and fee increase at four-year public universities was 2.9% for in-state students and 3.3% for out-of-state students. By comparison, private university tuition increased by 3.7%. At the current pace of increases it is not out of the question for a private college to cost upwards of $500,000 for four years including tuition, room and board, books, etc.

There is good news, however, you can start investing early and in most states you can contribute $300,000 or more per beneficiary via a tax advantaged 529 college savings plan. Like any competitive market, investors also have options in terms of which 529 plan they select. Investors are not limited to using their own state's vehicle. In fact, investors have the opportunity to shop the different state investment options, find one that they are most comfortable with and even work with their advisor to choose their own investment allocation.

Since there is no limit to the number of accounts a beneficiary can have, there are also options for grandparents, or others, to open accounts for grandchildren or children they know. For example, let's say a parent lives in Illinois but prefers the investment options of the Ohio 529 Plan. That parent can open two plans, one in Illinois, to take advantage of the state tax credit, and another in Ohio, to receive the benefits of Ohio's investment options and to diversify portfolios. Furthermore, most 529 plans have age-based investment options that automatically reallocate funds within the account to fit that child's "investment profile" as they approach eighteen, the typical enrollment age. The investment portfolio for a 1 year old would and should look drastically different from that of a seventeen year old looking to tap into these funds within the next year or two.

Whether giving a gift for a new born, trying to maximize tax credits, or maximizing gifting options for estate purposes, a 529 college savings plan is often an intelligent and cost effective way to help prepare for a child's future. The compounding effects of an eighteen year investment portfolio can help ease the college tuition burden for parents, grandparents and students, as they inch closer toward a diploma. Studies indicate that more people than ever plan to enroll in college, with lower unemployment rates and higher lifetime earning power accruing to those who attend; so why not help give a child a leg up and start investing today on their behalf?

John Kane is a Vice President, Private Client Advisor at Ancora Advisors LLC a SEC Registered Investment Advisor.
