Pittenger & Anderson, Inc.
REGISTERED INVESTMENT ADVISOR

529 Plan Playbook

by Trey Pittenger

Are you a parent or grandparent who desires to save for a minor's future college expenses? 529 Plans are a great investment vehicle to do so. And, you may get a current tax benefit to boot. We don't custody or actively manage 529 accounts, but we can help you devise a specific investment strategy and contribution plan, as well as guide you on the setup process.

In this article, the P&A 529 Playbook, we will cover the key advantages of a 529 Plan, how the investment strategy could differ from your personal savings strategy, and key variables needed to devise a sound strategy.

Key advantages:

- When using your state of residence's state sponsored plan (SSP), you can receive a current year tax deduction for contributions made. (Not every state offers a deduction, though.)
  - For Nebraska, the SSP is directed by First National Bank of Omaha and residents can receive ***up to a maximum of $10,000*** annual state tax deduction.
  - There is no income limit to be able to contribute and receive the state tax benefit.
- The custodian (parent or guardian) can direct the investments through the platform provided by the state sponsor.
  - Anyone can contribute to a beneficiary's 529 account and receive a tax benefit.
  - Think grandma, grandpa, aunt, uncle, etc.
- Unused monies are transferrable, without penalty, to a member of the beneficiary's family.
  - Qualified members are broad…from brother/sister to stepbrothers/stepsisters to cousin.
- Qualified expenses to ensure tax-free distribution during college years include:
  - Tuition & fees
  - Books & supplies
  - Room and board (if the beneficiary is at least a half-time student)

Investment Strategy:

When devising an investment strategy for college savings, it is important to note that the time frame is usually shorter, and more finite, than for your personal savings or retirement savings. There is a specific and definitive age/year where the funds will be used by the beneficiary. Thus, the glidepath for reducing equity exposure should be given careful consideration.

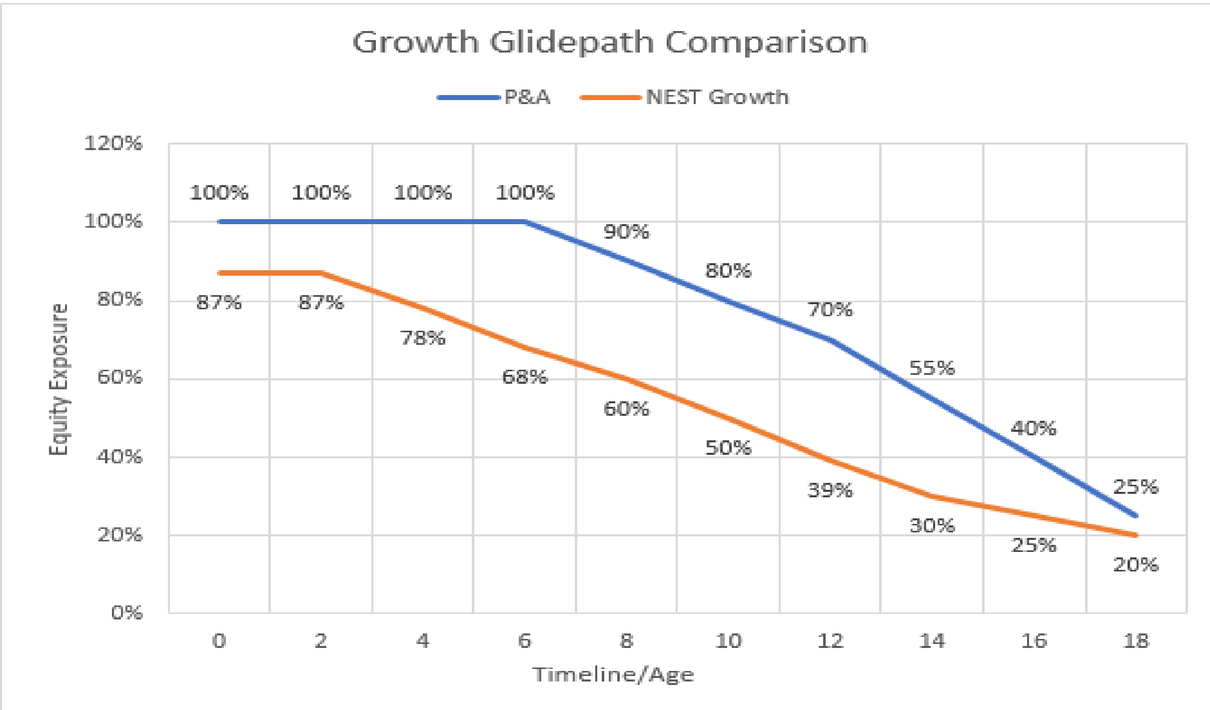
The investment options within 529 plans are very similar to what you will find in a traditional 401k plan, a variety of target date/age-based options, plus individual fund options to build a more customized portfolio.

Age-Based

The age-based options are designed to simplify the investment decision making process. You can "set it and forget it" as you let the program know your child's age at the outset, and then pick aggressive, moderate, or conservative. The investment mix will automatically change as the years go by and your child gets closer to college. Although this does simplify the process, in our opinion, this option could potentially leave some growth on the table due to the steepness of the glidepath (changing of stocks to bonds over time).

Customized

The customized option will allow you (with the guidance of P&A) to select specific mutual funds for a more targeted approach. We tend to favor a slightly more aggressive approach in the early years, although landing at a similar allocation as the Age-Based options once your child reaches age 18. There are several variables that can change a strategy, including but not limited to: other sources of funding during college, scholarship options, school choice, etc. Also, important to note, if you do choose the customized strategy, the responsibility will ultimately be on you to make the necessary changes as the years go by.



Money Guide Pro:

Investment allocation is only one component of a sound college savings plan (like a long-term financial plan). The other key variables include your Goals (future college expenses) and Resources (current balances and annual funding amounts).

Our planning software, MoneyGuidePro, can search thousands of different colleges across the country to assess current costs of tuition, room and board, and books and supplies. An example is shown below.

University of Nebraska–Lincoln

Include in Cost	Types of Cost	Annual Cost
✔	Tuition and fees	$9,366
☐	Additional out-of-state fees	$14,634
☑	Room and board	$11,830
☑	Books and supplies	$1,044
☑	Other costs	$ 0
Total annual college costs		$22,240

Selecting a college during the planning process simply allows for a baseline goal to save towards. Next, we will discuss current balances and annual savings amounts. When we bring it all together, the program will help to map out a cash flow scenario to fund future college expenses. An example of this is shown below.

Portfolio Value Chart

		Beginning Portfolio Value							Goals Funds Used		
									Need		
Event or Ages	Year	Earmarked	Fund All Goals	Additions To Assets	Other Additions	Investment Earnings	Investment Return	Taxes	10 College - Billy	10 College - Annie	Ending Portfolio
49/45	2020	$105,672	$0	$12,000	$0	$6,976	5.93%	$0			$124,647
50/46	2021	$124,647	$0	$12,000	$0	$8,100	5.93%	$0			$144,748
51/47	2022	$144,748	$0	$12,000	$0	$9,292	5.93%	$0			$166,040
52/48	2023	$166,040	$0	$12,000	$0	$10,554	5.93%	$0			$188,594
53/49	2024	$188,594	$0	$12,000	$0	$11,891	5.93%	$0			$212,485
54/50	2025	$212,485	$0	$12,000	$0	$9,886	5.93%	$0	$28,861	$28,861	$176,650
55/51	2026	$176,650	$0	$12,000	$0	$7,578	5.93%	$0	$30,405	$30,405	$135,418
56/52	2027	$135,418	$0	$0	$0	$4,230	5.93%	$0	$32,031	$32,031	$75,585
57/53	2028	$75,585	$0	$0	$0	$480	5.93%	$0	$33,745	$33,745	$8,575

Then, just as is the case with any sound financial plan, we review and adjust as the years go on. We hope this P&A 529 Playbook has been helpful. As always, reach out to us with any questions.

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