529 Plans Offer Benefits in All Markets

A new school year will soon begin. And if you have young children, that means it's one year closer to the day when they head off to college or some other post-secondary education or training. You might be preparing for that day with a 529 education savings plan — but should you be concerned if you need to start taking withdrawals to pay for education expenses when the financial markets are volatile?

Long-term investment vehicles based on the financial markets, like a 529 plan, will always fluctuate in value. If you've had a 529 plan for many years, you've probably invested money when the market has been up, down and flat. In fact, during down periods, it's often a good time to invest, because your dollars buy more shares than they could when prices are up. Your hope is that, over the years, your 529 plan will gain enough to overcome the short-term declines in value.

In any case, you'll want to keep in mind the key benefit of 529 plans: Earnings and withdrawals are federally tax free when the money is used for qualified education expenses for college and some trade school programs. And your state may give you an income tax deduction or a credit for your 529 plan contributions. In some states, a 529 plan can be used for K-12 schooling as well.

You have another incentive to keep your 529 plan intact despite temporary drops in value. Specifically, if you withdraw money and don't use it for eligible education expenses, your withdrawal may be subject to a 10% penalty, in addition to state and federal income taxes. That could be a high price to pay for a move that may not be in your best interest. After all, if you were to move your 529 plan money into a minimal-risk asset, such as some type of cash vehicle, you could sacrifice some of the growth potential you might need to meet the high costs of higher education.

Many 529 plans offer investment portfolios that gradually become more risk averse as the beneficiary gets closer to college age. A financial advisor can discuss the investment options with you.

While this investment feature doesn't guarantee you'll have complete immunity from financial market volatility, it can help reduce its impact when you need access to the money.

Here's one more point to keep in mind: Just because you've planned to access your 529 plan when your child reaches 18, or whatever age they begin their post-secondary education, you're not required to take money out at that point. You can keep your 529 plan intact until you feel more comfortable making withdrawals, though you'll need to consider how this decision will affect your ability to help pay for your child's education.

The financial markets will always be in some type of flux, but don't let these movements deter you from sticking with a 529 plan — it's still one of the best investments you can make in your child's future.

This article was written by Edward Jones for use by your local Edward Jones Financial Advisor.

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