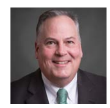
T. ROWE PRICE INSIGHTS
ON PERSONAL FINANCE

529 Plans Can Help You Save for College Even in Uncertain Times

The long-term impact of the pandemic on higher education remains to be seen, raising new questions for prospective students and their parents.



Roger Young, CFP®
Senior Retirement Insights Manager

KEY INSIGHTS

- Saving for college in a 529 plan can add predictability to an otherwise uncertain situation.
- Saving early and regularly can increase your flexibility when choosing among schools.
- If you aren't able to save 100% of your children's future education costs, payments from current income, loans, grants, and scholarships can help make up the difference.

The coronavirus pandemic has changed the landscape of higher education. The pivot to remote learning introduced new possibilities for the way colleges deliver education—and new considerations for prospective students about how to conduct their studies.

The shift to virtual schooling, alongside acute awareness of the rising cost of higher education, has led to speculation about fundamental changes that could alter the current model at four-year residential colleges and universities.[1] It also raises the question of what costs might be without traditional in-person instruction or room and board.

As with many areas of uncertainty, it's important to understand what lies within your control. When it comes to paying for college, saving as much as you can is one of the few ways to provide a solid basis for decision-making. According to Roger Young, CFP®, a senior retirement insights manager with T. Rowe Price, "529 plans remain the best way to reduce uncertainty about paying for college, thanks to tax-free potential growth."

The actual cost of a college education is hard to predict

College tuition continues to increase. For the 2020–2021 academic year, the average total tuition, fees, room and board, and other related costs ranged from $26,820 at in-state, public four-year institutions to $54,880 at private four-year institutions.[2] Because that range is so wide, and financial aid packages can be unpredictable, it's important for parents and prospective students to consider a range of

[1] March 2020, *Harvard Business Review*, "What the Shift to Virtual Learning Could Mean for the Future of Higher Ed." https://hbr.org/2020/03/what-the-shift-to-virtual-learning-could-mean-for-the-future-of-higher-ed
[2] 2020, College Board, "Trends in College Pricing and Student Aid 2020." https://research.collegeboard.org/pdf/trends-college-pricing-student-aid-2020.pdf

"As with other long-term investment goals, saving early—even if it's only a little bit at a time—helps maximize the opportunity for growth."

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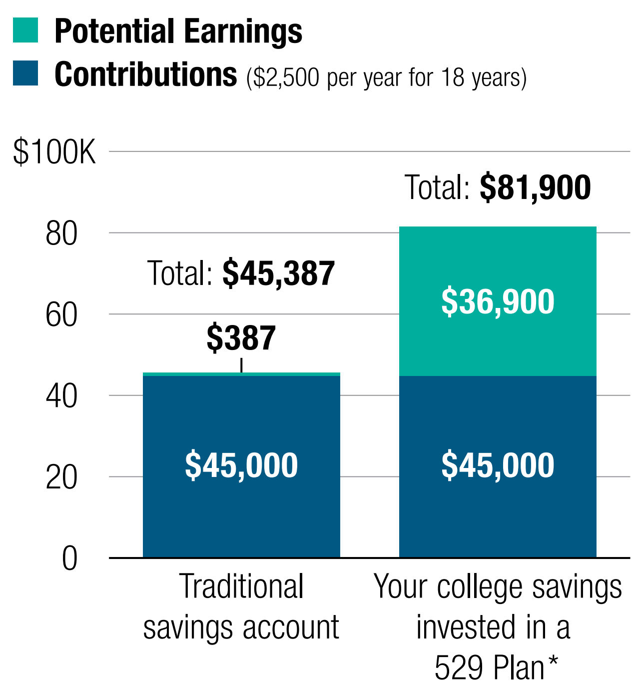
options. There is likely a limit to what you're willing or able to pay for a child's education. Make sure your child applies to at least one or two schools that you're confident you can afford. Taking that step will improve the odds of finding the right fit, both academically and financially. In a post-pandemic environment, that could mean considering schools that offer remote instruction or a hybrid model at potentially lower costs.

529 plans are a useful vehicle for education savings

As parents and students consider their postsecondary options, the best course of action is to save as much as possible as early as possible. Earnings in 529 plans are tax-deferred, and you won't pay federal income taxes on distributions if they're used for qualified educational expenses such as tuition and fees; room and board; books, supplies, and equipment required for enrollment or attendance; and computer and technology needs.[3] Investment decisions can be simplified under 529

The Growth Potential of a 529 Plan

A 529 plan offers the potential of higher returns and tax-advantaged growth compared with bank savings accounts. If you consider saving $200 a month in a bank account versus investing that same amount in a 529 plan, you could accumulate about $30,000 more over 18 years.



*This example shows the potential difference between two common ways to save for college—saving in a traditional savings account and in a 529 college savings plan. The chart assumes a hypothetical interest rate of 0.09% in the savings account and a hypothetical 6% rate of return in the 529 savings plan account compounded annually. This example doesn't represent the return on any particular investment. It demonstrates the hypothetical difference between a 0.09% return and a 6% return, but not between any two specific products. *These rates are not guaranteed. Unlike a traditional bank account that offers Federal Deposit Insurance Corporation (FDIC) protection, investments in 529 plans are generally not guaranteed, and you could lose money, including your principal, by investing in them.* There may be other material differences between savings accounts and 529 plan accounts that should be considered prior to investing.

[3] The availability of tax benefits may be conditioned on meeting certain requirements, such as residency, purpose for or timing of distributions, or other factors as applicable.

35%

Of parents report using a 529 account to save for their child's college education. Nearly half report using a regular savings account.

T. Rowe Price's 2021 Parents, Kids & Money Survey

plans, which have portfolios that adjust asset allocations based on a student's target enrollment date, becoming less aggressive as college approaches. "As with other long-term investment goals, saving early—even if it's only a little bit at a time—helps maximize the opportunity for growth," says Young.

Parents with the means to save more money can take advantage of another benefit related to 529 accounts: You can make a one-year contribution of up to five times the maximum annual amount allowed by the IRS under the gift tax exclusion (for 2021, that means $15,000 multiplied by five, or up to $75,000 in total). As long as you don't make any additional contributions over the next four years, you can avoid paying gift taxes or using the lifetime gift exemption. It's also important to note that anyone can contribute to a 529 on a child's behalf, so grandparents, other relatives, and even close family friends may use them to give the gift of education.

Families fortunate enough to have more savings than they need have options as well. If a child receives scholarships, families can take penalty-free withdrawals from 529 accounts for an equivalent amount. Proceeds from 529s also can be used tax- and penalty-free to cover student loan payments for the beneficiary, up to a $10,000 lifetime maximum. It's also possible to change the beneficiary of a 529 plan to another family member, including yourself. The funds can even be used to cover up to $10,000 per year worth of elementary and secondary public, private, and religious school tuition expenses.[4] If you're concerned about saving too much and paying penalties on the earnings portion of nonqualified withdrawals, consider starting with a 529 plan and supplementing those savings with investments in a taxable brokerage account.

Focus on controlling what you can

It's not necessary to save enough to cover a child's entire college education expenses in a 529 plan. Young advises families to start saving for a child's education as soon as possible, with an amount they can afford while keeping other potential funding methods in mind. Over time, increasing contributions can expand the feasible set of education options—while limiting debt to an appropriate level. A college savings calculator can help families plan for and evaluate college funding scenarios.

In addition, virtually all schools offer a net price calculator. These tools show the college's cost of attendance, as well as an estimated package of grants, loans, and other financial aid based on a family's financial circumstances and a student's level of academic success. These estimates can help families identify colleges clearly within their budget, as well as those that could work under the right aid circumstances.

The world has changed in many ways over the past year, but higher education will likely remain a significant financial goal for most families. It is risky to count on dramatic reductions in college costs or future forgiveness of student loans.

By saving what you can, it's possible to reduce the uncertainty in an already challenging decision-making process. "The less you and your child have to worry about how to pay for their education, the more you can both focus on getting the most out of college," says Young.

[4] While qualified distributions from 529 plans for K–12 tuition expenses are federally tax-free, state tax treatment will vary and could include state income taxes assessed, the recapture of previously deducted amounts from state taxes, and/or state-level penalties.

529 Plans Managed by T. Rowe Price

With more than 80 years of financial experience in varying market environments, T. Rowe Price is focused and committed to helping you choose the right path for one of the most important investment decisions families face today. Our 529 plans offer benefits such as:

- A variety of portfolios, including enrollment-based options as well as a range of fixed investment strategies
- Automatic monthly contributions
- Powerful online tools to help chart your family's saving strategy
- College savings specialists who are standing by and ready to answer any questions that you may have
- The **GoTuition®** gifting portal, an online tool that makes it easy to ask friends and family to contribute to a child's 529 plan

Learn more or open an account today by visiting troweprice.com/college.

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Important Information

A 529 college savings plan's disclosure document includes investment objectives, risks, fees, expenses, and other information that you should read and consider carefully before investing. You should review the 529 plan offered by your home state or your beneficiary's home state and consider, before investing, any state tax or other state benefits, such as financial aid, scholarship funds, and protection from creditors, that are only available for investments in such state's 529 plan.

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CCON0082820 (06/21)
202106-1669247