

ICI VIEWPOINTS

MAY 29, 2018

## Popular 529 Savings Plans Expand to Reach Students of All Ages

By Christina Kilroy

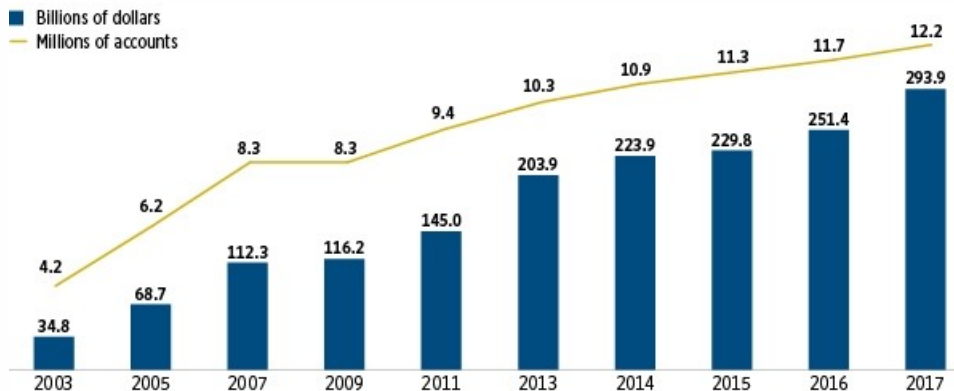
Today, on May 29—“5/29”—we mark 529 College Savings Day. Many people interested in saving for a child’s or grandchild’s future college costs are using targeted savings vehicles called [529 savings plans](#). The plans, which have grown in popularity over the past decade and a half as a way to save for a family member’s college expenses, may now also be used to cover tuition for elementary and secondary education.

### 2017 Tax Reform Expands Usefulness of 529 Plans

Assets held in 529 savings plans—named for the section of the tax code that provides for their favorable tax treatment—increased from \$34.8 billion in 2003 to \$293.9 billion in 2017, while the number of 529 savings plan accounts expanded from 4.2 million to 12.2 million over the same period.

#### Section 529 Savings Plans

*Year-end, selected years*



Sources: Investment Company Institute and College Savings Plans Network. See Investment Company Institute, [529 Plan Program Statistics, December 2017](#).”

Though 529 plans are already a top choice for families saving for qualified college costs, changes to the United States tax code in 2017 may make the plans even more popular in the future. The new tax law now permits 529 plan distributions up to \$10,000 per student, per tax year, to apply to educational costs of younger students, such as tuition for the enrollment or attendance of the 529 account’s designated beneficiary at a public, private, or religious elementary or secondary school.

### Why 529 Savings Plans Are Growing

Three features of 529 savings plans make them a popular choice:

- **Favorable tax treatment.** This is arguably the 529 savings plan’s biggest draw, and the reason it’s preferred to other types of savings options. Nearly all states and the District of Columbia offer 529 savings plans, most of which are open to residents and

nonresidents alike. Plan earnings grow tax-free—and the distributions are free from federal tax (as well as state tax, in most states) when used to pay for [qualified education expenses](#). Just as important—529 plan account holders who invest in their state’s plan may be able to claim a state income tax deduction on all or part of their contributions.

- **Dedicated saving toward specific goal.** Setting up an account focused on education savings, especially with automatic contributions, makes it easier to set aside small amounts of money that add up over time. ICI research indicates that education savings is a priority for households most likely to have young children—mutual fund–owning households headed by younger individuals tend to be [more focused on saving for education](#) than other households.
- **Choice and flexibility.** A 529 savings plan gives an account owner a choice of investments and flexibility in determining how funds are used. The plan’s designated beneficiary can be replaced at any time with another qualifying family member. And, much like a 401(k) account or individual retirement account (IRA), investment dollars can be allocated among the plan’s investment options. Mutual funds are the most common investment option available in 529 savings plans. Account owners can compare the varying investment options and fees among state plans to find the best college savings option for them.

More about 529 savings plans:

- [529 plan information by state](#)
- [ICI’s FAQs and data on 529 plans](#)
- [ICI member companies](#) that may offer education savings programs

Christina Kilroy is the Vice President of the ICI Education Foundation.