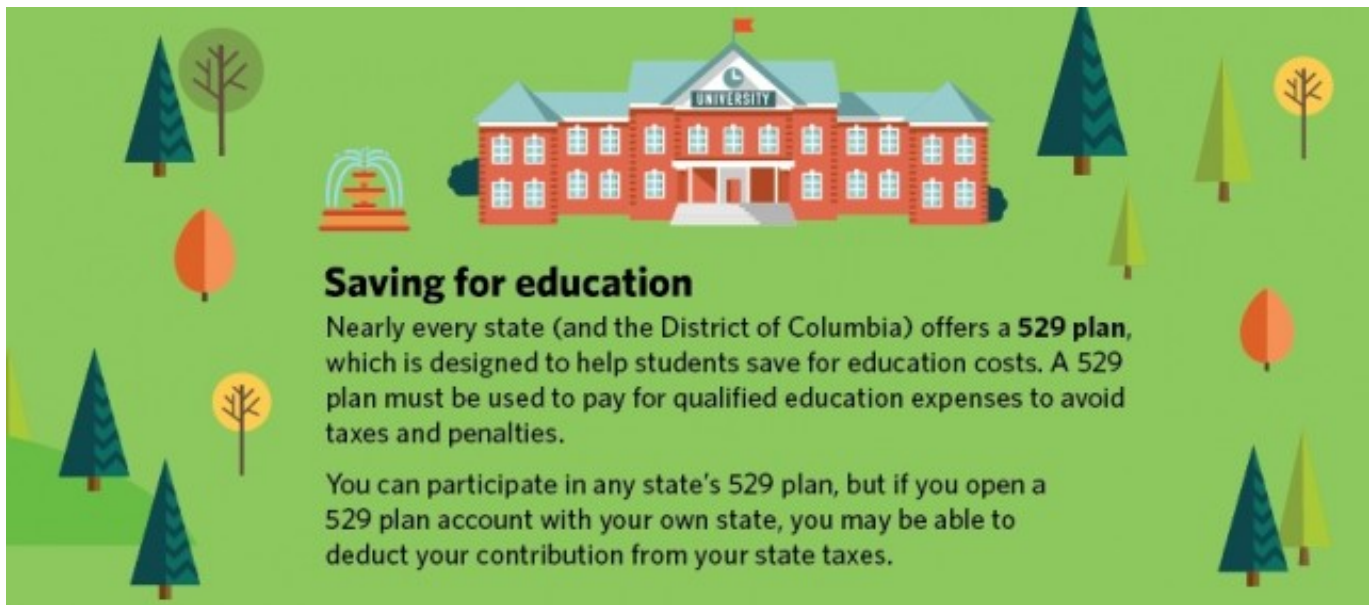


ICI VIEWPOINTS

MAY 27, 2021

Education Savings: Here's Everything You Need to Know

By Miriam Bridges



On May 29, we celebrate National 529 Day (5/29, get it?)—a day to highlight the importance of 529 savings plans in helping Americans plan and pay for education expenses. If you have plans for education or have plans for your family's education, and if you aren't already saving in a 529 plan, today's a great day to start.

In the spirit of school, here's a pop quiz! But we're giving you the winning answers. Study up and you'll learn why 529 accounts are an excellent choice if you want to save for education.

- **What is a 529 plan?** It's an investment program designed to help pay for future qualified education expenses. Money saved in a 529 plan can be used tax-free for K-12 tuition, postsecondary education (college or graduate school), apprenticeship costs, and even some student loan repayments.
- **What types of 529 plans are available?** There are two types of plans—college savings plans and prepaid tuition plans. By a wide margin, savings plans are the most popular choice: they made up 94 percent of all 529 plan assets and 93 percent of accounts at year-end 2020.
- **529 plans are often called savings plans, but what are they really?** They are investment accounts. This typically means your money will be invested in funds. [Mutual funds](#) are the most commonly used investment vehicles in 529 savings plans.
- **Who is allowed to open a 529 account?** Account owners can be parents, grandparents, other family members, or friends of the account beneficiary. You can even open one for yourself! And anyone can contribute to an open account, regardless of who owns the account.
- **Are there tax breaks for saving in a 529 plan?** Yes! The earnings in your account can grow in your account free from federal

income taxes. This means every dollar earned through interest, dividends, and other investment returns compounds tax-free while in the account. Also, all withdrawals for qualified education expenses are tax-free. As an added bonus, some states allow you to deduct contributions from your state income taxes and some states offer a tax credit for making contributions.

- **Why is timing important?** Getting started early goes a long way toward achieving long-term financial goals through the power of [compounding](#). Let time be your ally.

Education is an important personal investment, and a 529 plan is a great tool to help you build up the funds you will need. If you haven't already opened a 529 plan, it's easy to do! There are lots of [resources online](#) to help you. Learning about your own state's plan is a good place to start.

If you already have a 529 plan, it's a good time to review and update your plan. Consider increasing your monthly contribution amount or using payroll deduction or automatic transfers from your bank.

Learn more about 529 plans with ICI's [Frequently Asked Questions About 529 Plans](#) and [Investing Basics: 529 Savings Plans](#).

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