

One of the best ways to save for a child's college education is to put money regularly into a 529 plan, a special type of savings plan that has tax and other advantages. There are two main types of 529 plans, prepaid tuition plans and college savings plans, and each comes in many forms. Read on to learn how to choose the right plan for your family.

### **Understanding 529 prepaid tuition plans**

A prepaid tuition plan lets you buy tuition credits or units at today's rate and use them later when your child attends a participating college or university. The value of your credits - often called "shares" - increases tax-free at the same rate as tuition, so a prepaid tuition plan lets you lock in at the current tuition rate.

There are two main types of 529 prepaid tuition plans.

- State plans. Most prepaid tuition plans are sponsored by the states, and each state sets its own rules for them. State plans generally cover tuition only at public colleges and universities, though some cover tuition at private universities in those states.
  - Independent plans. The 529 plans known as independent plans cover tuition at more than 250 private colleges and universities throughout the country.
- Some states offer extra benefits to people who contribute to their 529 plan, such as matching grants or an option that lets you save for room and board in addition to tuition.

### **Understanding 529 college savings plans**

A college savings plan lets you make deposits in an account you can draw on later to pay for eligible college expenses. You can usually choose among several or more investment options for this type of plan, such as mutual funds or money market funds. And the value of your investment grows tax-free if used for eligible college expenses. You usually must pay taxes and penalties if you withdraw money for other purposes.

Unlike prepaid tuition plans, college savings plans do not allow you to lock in at today's tuition rate. Your investment grows at a market rate and may lose value in an economic downturn, although some plans guarantee a minimum annual return. But you can use the money in a 529 college savings plan at any college or university and use it not just for tuition but for room, board, and any other eligible expenses.

### **Tips on choosing a 529 plan**

You may be able to save for your child's education through several or more state prepaid tuition plan options and through many independent and college savings plans. Here are some other tips on how to find the right plan for your family:

- Start by looking into your state's prepaid tuition plan. The plan in your state may have unique advantages for residents, including an exemption from state income taxes for qualified withdrawals. To learn more about those advantages, visit the site for the College Savings Plans Network ([www.collegesavings.org/advantagesOf529.aspx](http://www.collegesavings.org/advantagesOf529.aspx)). You can find links to more information on prepaid plans in all states at [www.collegesavings.org/viewState.aspx](http://www.collegesavings.org/viewState.aspx).
- Consider an independent prepaid tuition plan if your child may need flexibility. An independent prepaid tuition plan may be a good option if you aren't sure that the schools offered by state plans would suit your child. The Independent 529 Plan site ([www.independent529plan.org](http://www.independent529plan.org)) has more information about these plans, including a list of colleges that participate in them.
- Make sure you understand the fees for college savings plans. Some college savings plans charge high fees, such as a "sales load" (a fee paid when you buy or sell shares) of as much as 6 percent and an annual administrative fee of 2 percent. If a fee is steep, you might be better off investing on your own or in another type of plan.
- Ask a lot of questions about plans. The Securities and Exchange Commission offers a list of questions to ask at [www.sec.gov/investor/pubs/intro529.htm](http://www.sec.gov/investor/pubs/intro529.htm). The SEC site includes a chart comparing prepaid tuition and college savings plans, facts about how a plan may affect your child's eligibility for financial aid, and links to additional information. If you are eligible for the Post-9/11 GI Bill you may be able to transfer the benefits to your children. The Post-9/11 GI Bill is available to service members on active duty since September 11, 2001. To transfer benefits, you must have been serving on active duty or in the Reserves as of August 1, 2009 and meet certain time-in-service requirements. Details are available at [www.gibill.va.gov](http://www.gibill.va.gov).

Military OneSource is always here to help with your questions about paying for college. Call 1-800-342-9647 any time of the day or night, or visit [www.MilitaryOneSource.com](http://www.MilitaryOneSource.com).