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Flexibility, Thy Name is 529

When it comes to flexibility, the 529 is a flexible strategy in the investment world. After high school graduation, it funds "college." That means an accredited traditional 4-year program, a technical school, a 1-year ski school, or perhaps even a 3-month school to become a medical technician. You get the idea.

The label comes from where the plan exists in the IRS Code, Section 529. Its purpose is to establish an account for educational expenses after high school. The owner is called the participant and is in charge of the plan; he or she may choose to remove money or change the beneficiary at any time.

With this strategy, choices abound. Here's an example of how your experience could be.

Suppose I select the Oregon 529 plan. Even though I don't live in Oregon, I may like their plan. You might select a plan issued by your state of residence, as there may be benefits to you.

As owner, I start the 529 plan with a minimum of $250. Any amount from anyone can be sent to the plan provider for contribution to the youngster's account. For instance, I name my grandson Fletcher as beneficiary.

When Fletcher is age 0-5, the plan provider invests all contributions into an "aggressive growth allocation" model they manage. As Fletcher turns 6, the plan provider automatically takes the entire account balance and changes the account to "growth allocation."

Fletcher's new account remains invested in this manner until he reaches 11. Then, once again the plan provider will automatically take the entire account balance and change the objective from "growth allocation" to "moderate allocation."

There will be more changes as Fletcher gets closer to 18, and expected college time. However, if he waits for some years to start college, the plan will wait for him. There is no forced liquidation.

This is the plan providers age-based investment option and is subject to change at any time. They do have other options. Contact them for a current prospectus.

The strategy is to become more conservative so that the money will be less volatile when it is finally needed for college.

Suppose through the years the contributions total $25,000 and have grown to $100,000, that is, a growth in capital of $75,000.

Fletcher is now 18 and ready for college. However, he proudly announces that he is not going to college and instead wants to be a yoga instructor. (We love him anyway).

As owner of the 529, I change the beneficiary to his younger sister Lucy who in a few years wants to attend an accredited college, of which there are 7,000+ worldwide. The college will open a checking account for Lucy.

Lucy says she needs $10,000 for her first semester at ABC College. I call or email the plan provider and authorize them to send a distribution of $10,000 to Lucy's checking account at ABC College. The college withdraws what is needed for Lucy's room, board, books, tuition, and other approved items.

Since the $10,000 is going to an accredited college, there are no taxes on that distribution. There is now $90,000 in the account, assuming no account fluctuation in value.

Lucy decides she wants to go to graduate school to become a doctor. I or others might start once again contributing to the account because Lucy may need more money.

Through the years the account sends ever more distributions to Lucy's checking account. Lucy graduates and the balance in the account is $40,000, which is composed of the original contributions of $25,000, plus any additions, and gains of now $15,000.

Dr Lucy graduates, a happy day, and has no desire at this time for further education.

As owner, I decide to change the beneficiary to myself. Why? Because I've always wanted to attend the accredited Arnold Palmer Golf Academy and also a school in France to study cooking. I can use the remaining $40,000 in the account for my own education, tax-free.

On second thought, I'll just have the plan provider send me a check for the remaining balance of $40,000. Since there are gains of $15,000, I will owe income taxes on the $15,000 gain. Check with your tax advisor as to your situation.

Section 529 of the IRS code is an excellent benefit that can be used by parents and grandparents for their family members. It has many other details worth exploring. It's very flexible.

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