



02.06.26 | FINANCIAL LITERACY

529 Plans Explained (Video)

Saving for college can feel overwhelming—especially as tuition costs continue to rise faster than almost everything else. In this video, Grimes & Company Financial Advisor Jordan Letendre breaks down one of the most effective tools available for college savings: 529 plans.

From tax advantages and state incentives to new rules that add flexibility if your child's path changes, Jordan walks through how 529s work, addresses common concerns, and shares practical tips to help families get started with confidence.

Watch the full video below:

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VIDEO TRANSCRIPTION:

Hi everyone, my name is Jordan Letendre. I'm a financial planner here at Grimes and Company. And today we're going to be talking about the subject of saving for college, in particular the use of 529 plans and a lot of the questions and concerns that I get about the use of 529 plans.

The cost of college has really gone up significantly more than nearly everything else at a rate of about five and a half percent per year over the last 40 years. And so what does that mean? You know, for somebody who has a newborn at home today, looking at this chart here, you're actually looking at about \$600,000 that would need to be saved just to fund that one college education. So that's a daunting number.

And the reason why 529 plans are such a great tool saving for college is they grow tax-free. As long as the money you save in there is used for books, tuition, room and board, among other things, that money can be withdrawn completely tax-free down the road.

Not to mention, some states also offer tax incentives along the way where you may get a state tax deduction for the contribution each year.

So let's go through now what are some of the common concerns that I hear when it comes to 529 plans. And probably number one is what happens if my child doesn't go to college? Option number one is you can always change the beneficiary. You can change it to another child, a grandchild, even to yourself for that matter if you're maybe in a career where there's ongoing education involved. Another option is 529s can now be used towards credentialing programs. So think about the trades, welders, plumbers, cosmetology, they can be used for things like the bar exam. In addition, you can now use up to \$20,000 per year to fund K through 12 education. The final thing, one of the new tax laws that's been rolled out is up to \$35,000 can be rolled out of a 529 plan into a Roth IRA.

So again, some added flexibility. There are some rules there. The 529 has to be open for at least 15 years. So it's important to get them open early, but potentially allows you some flexibility to roll the money to a different type of savings account if the funds are not used.

Concern number two that I often hear is, will 529 plans hurt me from a financial aid perspective? And the reality is that parent-owned assets are counted a lot less when it comes to financial aid than a student-owned asset. So given a 529 plan is owned in a parent's name with the child as the beneficiary, a lot less of an impact on financial aid.

The other thing is, grandparent owned 529 – these typically were not a great option as any income that came out counted as income for the student, and that was a negative impact to financial aid. That has since been changed. So with the new rules, grandparent owned 529 plans are actually a great option, and they don't nearly have the negative implication on financial aid as they did in the past.

So just to wrap up here, I know the thought of saving for college can be overwhelming. As a dad with three young kids at home, I get it. It can be a lot to balance how to save for retirement, your day-to-day living expenses, plus the college education down the road. But there are really some important tips that you should keep in mind. And number one is start

early and try to save as often as you can. The earlier you can get that account opened, even if you're making small contributions every month, they'll add up. Keep it simple. Make automatic contributions. Set it up so that every single month, a certain amount of money is automatically moving from your checking account directly into the 529 plan.

From an investment perspective, if you're not sure how to invest the money in a 529 plan, you can actually do what's called an age-based program. You put in the date of birth of your child, and over the years, the custodian of the 529 plan will automatically adjust the mix of stocks and bonds in that strategy to get more conservative as the child gets closer to needing those funds for college. And finally, make sure that when you're doing your taxes, if you're in a state that offers a tax benefit for making contributions to a 529 plan, make sure you're passing along that information to your accountant so that they know you made the contributions and you get any potential state tax benefit that you maybe do. So thank you for your time today. If you have any questions, feel free to reach out to your financial advisor here at Grimes & Company.

We'd be happy to run some numbers and help you through your individual situation as it relates to saving for college and the use of 529 plans.

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