How to Get the Most of 529 College Savings Plan

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With college tuition prices rising around 5% to 7% a year, the sooner you start to save for your children's higher education the better.

"The cost of college is skyrocketing, the availability of funds for kids is less and less and loans are harder to get," says Nancy Coutu, co-founder of Money Managers Financial Group. "It's prudent to start planning early."

A 529 plan is a tax-advantaged investment vehicle operated by a state or educational institution that can help parents establish a college fund, and while experts call these plans easy to use, some upfront planning and research can help ensure a child's tuition is covered.

Set a Savings Target

Before you open up a 529 plan, financial experts recommend you visualize the type of school you want your child to attend and then figure out the potential price tag to set a savings target.

According to John Kenney, head of Legg Mason's global asset allocation group, in 18 years an in-state public tuition will cost around $220,000 for four years while a private university will cost about $437,000.

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“Knowing the difference of a private and public school and knowing whether or not it is obtainable will have an impact,” says Kenney.

Once you’ve determined a school type, it’s time to create a saving profile, says Kenney. Evaluate your budget for how much you can afford to put away each month to make budgeting easier.

Once you have a set number, experts suggest setting up automatic payments to make the process stay on track with little effort on your part.

“You have to set a goal, choose a savings vehicle and establish a schedule,” says Kenney. “You tend to not notice as much once you set an automatic plan in place.”

Enlist Help

Tapping family members and grandparents can also help you reach your college savings goals. Instead of showering a new addition with toys and clothes, Coutu suggests encouraging relatives to put money in the 529.

If the grandparents are trying to reduce their estate for tax purposes, Coutu says investing ina 529 is an ideal way to do that. “There is urgency and a great funding source in grandparents.”

Finding the Right Plan

When it comes to choosing a 529 to invest in, financial experts say it’s not always advantageous to go with your state plan even with the tax write off.

According to Coutu, parents have to evaluate the performance of the plan, its fees and the type of investment choices it offers. Many 529 plans are aged based, meaning they invest aggressively when the child is younger and get more conservative the closer the child nears enrollment.

Each plan invests in different funds, making it critical you do your homework and review the performance and the money manager’s track record. “You should choose a 529 like a mutual fund,” says Coutu. “The tax write off [from a state plan] isn’t going to be high enough to warrant missing out on one of the more superior plans in the country.”