

# 529 Plans & Life Insurance for College

Many parents purchase 529 plans or Life insurance as a college savings vehicle for children, so compare both plans as you choose the best option for your children.

## 529 Plans

529 Plan money grows tax-free and distributions are not subject to federal income tax. You can open an account with a Stanley G. Tate Florida Prepaid College Plan.

The beneficiary or the parent/guardian must have been a Florida resident for the 12 months prior to enrollment.

Only U.S. citizens and resident aliens at least 18 years old, UGMA/UTMA custodians, & legal entities organized in the U.S. can be a participant or owner in the program.

The beneficiary must be under 21 years of age and in the 11th grade or younger at the time of enrollment. Plan benefits must be used within 10 years after the expected date of college enrollment (not counting time in the military), unless an extension is requested.

### Contract prices:

Prepaid Plan prices for 2019-2020 Open Enrollment started at:

2-Year Florida College Plan \$52.65 / month

4-Year Florida College Plan \$113.63 / month

2+2 Florida Plan \$141.97 / month

1-Year Florida University Plan \$44.28 / month

4-Year Florida University Plan \$176.97 / month

You can only spend 529 Plan funds on tuition, books and other college expenses at a qualified school, including vocational schools, colleges and universities. If you withdraw the money for something other than education, you will owe penalties and taxes on the distributions.

Expect to pay a 529 Plan fee based on your portfolio. Additionally, you may owe a broker fee if you purchase the policy through a financial advisor. Florida does not allow deductions against contributions when you file taxes.

When you invest in 529 Plans, you choose the portfolio in which you invest your funds. There is no limit to your return potential, but you also aren't guaranteed a return since you invest in mutual funds, bond mutual funds or money market accounts.

While 529 Plans allow you to pay for college, they do affect your child's financial aid package. Your child could lose up to 5.64 percent of the 529 Plan's total value in college financial aid.

## Life Insurance

Cash-value life insurance policies also grow tax-deferred over time. Buy a policy when your child is born, and it could pay for your child's college education in 18 years.

Life insurance is more flexible than 529s because you can use the accrued money for any expense. Your child can withdraw the funds for college, buy a house, or start a business.

Expect to pay regular premiums for your life insurance policy, however payments are more flexible.

The type of life insurance policy you buy dictates the returns you receive. On average, you could see a six to twelve percent return over 10 years. You cannot lose your basis (principle) in a properly structured life insurance policy.

Borrow money from your life insurance policy for school, and you don't have to claim it as income on your Free Application for Federal Student Aid (FAFSA) forms. Overall, it will minimally impact your child's financial aid eligibility.

Purchasing a life insurance policy to pay for a child's college tuition makes the most sense for families with children under the age of 3, since it may take as long as 10 years to contribute enough to overcome expenses and maximize cash value.

Let's say that your child excels in academics and sports and lands a fully paid scholarship to a college or university of their choice, with a life insurance policy, students don't just have to use the money for college. They could use it to pay for a down payment on a house or in whatever way they wanted.

Since the last economic downturn, families are looking for safe ways to invest. Cash value life insurance policies have predictable returns whereas 529 plans rely on the performance of the investments in their funds. Life policies usually offer a low return the first few years, but after year 10, returns can increase more rapidly than a 529 plan, and with less downside risk.

When it comes to your kids, start saving early!