

# 529 COLLEGE SAVINGS PLANS

## SECTION 1 — WHAT IS A 529 PLAN?

- A 529 plan is a tax-advantaged savings vehicle designed to help families cover future educational expenses — named after Section 529 of the Internal Revenue Code. This information is geared towards the Louisiana START 529 plan, but many of the rules are applicable to most states.
- There are many plans for all different states, including brokerages (Schwab, Vanguard, etc...) The best plans are usually direct with states, Michigan and Utah are two of the better state plans behind Louisiana, and you don't have to be a resident to open accounts with them.
- Assets grow tax-deferred; qualified withdrawals are 100% federal and state tax-free.
- Main type:
  - **Savings plans:** Market-based, flexible (e.g., Louisiana START, Utah, Michigan)
- Open to anyone — parents, grandparents, relatives, and friends can all contribute.
- No income limits to participate — available to all income levels.
- Can set up accounts and make contributions online as well as through the mail

## SECTION 2 — PROS OF 529 PLANS

### Federal Tax Advantages

- Earnings grow tax-deferred — no federal or state tax on investment growth year over year.
- Qualified withdrawals are 100% federal and state tax-free.
- No federal income limits — everyone can contribute regardless of income level.

### Flexibility of Use

- Can be used for qualified expenses such as college tuition, fees, books, room & board, and more. This includes graduate programs and trade schools.
- Can be used to pay up to \$20,000 annually tax free per student in qualified K–12 expenses.
- Since July 2025, federal rules also allow 529 funds for tutoring and curriculum materials.
- Funds can be used at any accredited institution nationwide — not just in Louisiana.
- Beneficiary can be changed to another family member without penalty if the original beneficiary doesn't need the funds.
- The US and Louisiana allow 529-to-Roth IRA rollovers up to \$35,000 tax free per beneficiary. The beneficiary of the 529 START plan has to be the same person as the Roth IRA owner. The START plan has to be open for 15 years and be funded for at least 5 years before requesting a rollover. The total amount rolled over each year combined with any other contributions to the Roth IRA cannot exceed the annual contribution limit for a Roth IRA. Some states do not allow the Roth conversion.

### Financial Aid Treatment

- Parental 529 assets are assessed at max 5.64% on the FAFSA vs. 20% for non-529 plan assets — a significant advantage.
- Qualified withdrawals are NOT counted as income in calculating a student's financial aid eligibility.

### Low Barrier to Entry

- Louisiana START can be opened with as little as \$10; subsequent contributions also start at \$10.

## SECTION 3 — CONS OF 529 PLANS

- Non-qualified withdrawals are penalized — earnings (amounts in excess of contributions) subject to federal income tax PLUS a 10% penalty. The person receiving the withdrawal is responsible for the taxes.
- Louisiana clawback: non-qualified withdrawals cause you to retroactively lose any prior Louisiana state tax deductions taken.
- Market risk: 529 plan balances fluctuate with markets; no guaranteed return (unless using the Principal Protection option).
- Financial aid impact: while favorable vs. non-529 assets, the account balance is still counted as a parental asset on the FAFSA.
- Contribution limit: Louisiana accepts contributions until all account balances for the same beneficiary reach \$500,000.
- Rollovers into Louisiana START from another 529 plan are allowed, but the incoming rollover is NOT eligible for the Louisiana state tax deduction.

## SECTION 4 — LOUISIANA START PROGRAM: WHAT MAKES IT SPECIAL

### What It Is

- START = Student Tuition Assistance and Revenue Trust, administered by the Louisiana Office of Student Financial Assistance (LOSFA).
- An account may be opened by anyone, provided the account owner OR the beneficiary is a Louisiana resident.
- Once the account is opened, continued Louisiana residency is NOT required to keep participating and earning all benefits.

### State Income Tax Deduction – Louisiana flat 3% State Income Tax rate

- Single filers: deduct up to \$2,400 per year, per beneficiary from Louisiana taxable income.
- Married filing jointly: deduct up to \$4,800 per year, per beneficiary.
- This is PER BENEFICIARY — two kids means double the deduction.
- Any unused portion of the deduction can be carried forward to subsequent tax years.
- Contribution deadline: December 31 to count for that tax year.

★ *START K12 accounts are a SEPARATE program and contributions to K12 accounts are NOT deductible from Louisiana state income taxes.*

### The Earnings Enhancement — The Big Differentiator

- The state matches 2% to 14% of annual contributions — essentially free money added to your account.

- The match percentage is inversely tied to income: lower income earners receive a higher match percentage. The income thresholds are the same whether you file Single or Jointly.

Reported AGI (Income) Amount	Earnings Enhancement
\$0 to \$29,999	14%
\$30,000 to \$44,999	12%
\$45,000 to \$59,999	9%
\$60,000 to \$74,999	6%
\$75,000 to \$99,999	4%
\$100,000 and above	2%

- This enhancement is paid annually and posted to accounts as of December 31 each year.
- If you roll a START account to another 529 plan, all Earnings Enhancements and interest thereon are forfeited.

### Fees & Investment Options

- No administrative fees — the state subsidizes the program. Participants only pay the expenses on the funds that the money is invested in.
- Fund expense ratios: 0.02% to 0.14% for Vanguard fund options — among the lowest available anywhere.
- Investment options include three age-based options (auto-rebalance) and six Vanguard individual fund options.
- Also offers a Louisiana Principal Protection Option at no cost (100% in state-managed Fixed Earnings Fund) for risk-averse savers.

### TOPS Neutral

- The value of a START account has NO impact on eligibility for a Taylor Opportunity Program for Students (TOPS) award — a critical benefit for Louisiana families.

## SECTION 5 — WRAP-UP / KEY TAKEAWAYS

- For Louisiana residents, START is one of the best-value 529 plans in the country: state tax deduction + earnings enhancement + no administrative fees is a rare combination.
- Best strategy: start early, even with small contributions, to maximize tax-deferred compounding over time.
- Contributions must be made by December 31 to count for that tax year's deduction.
- For K-12 savings which uses a separate account than the college START Plan, the START K12 program is available — but note it does not carry the same state tax deduction. You can also roll the START K-12 Plan into the college START Plan.
- Bottom line: for anyone with children or grandchildren, Louisiana's START plan removes almost every reason not to start saving.

Disclaimer: This information is educational, and is current to the best of our knowledge. Even though we are knowledgeable in 529 plans and tax matters, seek out definitive guidance from a tax professional tailored to your specific situation.

For any other questions regarding 529 plans or any other financial matters, please contact me at the following:

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