

529 College Savings Plans are Easy to Start and Offer Irresistible Benefits

Written by Michael Alexenko, CFA
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If you're a resident of Illinois and you're undecided about what is the best way for you to save money for your child or grandchild's college education, then your doubt can end now. The Illinois Bright Start plan is by far your best choice. Furthermore it's easy to establish, has great investment options and delivers advantageous tax benefits that should not be forfeited.

Hopefully you're reading my comments prior to having opened a 529 plan through a bank or retail brokerage operation. If so then your first step in setting up a 529 plan for your child begins at the www.brightstartsavings.com website. This will help you avoid a totally unnecessary 5% sales commission charged by a broker who would do very little work to earn it. On top of that you might lose the exceptional generous tax benefit from the plan if the broker steers you into another state's plan. If by chance you do have a broker sold plan that is offered by another state you should take action to transfer the plan to the Bright Start program and you'll capture some state income tax reduction. Unlike some other states, Illinois allows you to transfer funds from other states' plans and permits tax deductibility on the originally contributed transferred amounts. See the website for the allowable amounts.

There is no need to have anxiety about how to invest the funds you're setting aside. Investing for a 20+ year time horizon does require some investment rebalancing and risk exposure adjustment but thankfully the investment options offered in the Bright Start program put the portfolio management duties on auto pilot.

I would recommend that most people select the age based indexed portfolios for their accounts. Using this choice a person is able to automatically match the investment time horizon with compatible risk exposure. For beneficiaries less than 6 years old the age based portfolio invests 90% of assets in stocks and gradually becomes less aggressive as the time for needing educational funds draws near. Once college begins the age based portfolio has made a transformation from an aggressive growth strategy to a low risk capital preservation plan. The best thing about the changes made to the investments is that it is completed without the need for the custodian to have involvement.

Choosing the indexed portfolios will give you access to low cost quality Vanguard mutual funds. The average cost for investing over the lifetime of the account is about .19% which is about 30% of the cost of the "blended portfolios" which are the program's alternative selections.

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If you run into problems setting up your 529 plan you'll find the Service Center reps to be very helpful. Contact numbers are on the website. If you still have questions give me a call and I'll be happy to assist.