# Taking a Gap Year? Don't Take Your Foot off the Gas on Saving for College

It's a back-to-school season like no other. In the wake of the COVID-19 pandemic, colleges and universities across the country have transitioned to a mix of remote, in-person and hybrid learning. These fall plans vary greatly. The California State University System was the first in the nation to move to remote learning. The Massachusetts Institute of Technology brought only seniors back to campus, while Bowdoin College welcomed only freshman. Professors at Purdue University are teaching in-person, but behind plexiglass, and Rice University has erected temporary structures and tents for use as outdoor classrooms.

However, these new models may not be acceptable to all students. Based on their experiences last spring during quarantine, many students cite struggles staying focused and motivated with online leaning. Students must also grapple with the fear that the pandemic could continue to alter their college's plans in the months ahead. For example, when COVID-19 cases spiked less than a week after classes began, administrators at the University of North Carolina at Chapel Hill sent all undergraduates home.

Understandably, some parents and students are hesitant about investing in today's untraditional college experience. In our new normal, paying college tuition can seem like a gamble. That uncertainty has more students deciding to pursue a gap year, a period of time during which high school graduates explore alternative opportunities rather than enrolling in college. In fact, since March, the Gap Year Association, a nonprofit that accredits gap-year programs, has reported a 300% increase in web traffic on certain pages.[1]

## Stick with the 529 plan

Although students may delay enrolling in or returning to college, it's important for families to continue saving for college. The 529 college savings plan has always offered the advantages of tax-deferred investment growth and withdrawals that are free from federal and state taxes when used for qualified higher education expenses. And with the pandemic threatening to continue to alter college plans, investors increasingly value the flexibility of the 529 plan, which:

- **Permits beneficiary changes** If the first beneficiary of your 529 plan chooses not to go to college, you don't lose your money. At any time, 529 account owners can change the beneficiary to another eligible "member of the family" (as defined under the US Internal Revenue Code) with no penalty. 529 account owners can also take a nonqualified withdrawal of the account assets; however, account earnings would be subject to federal income tax and a 10% federal penalty tax on any earnings, as well as possible state and local income taxes.
- **Has no age limit for withdrawals** Putting off going to college is not a problem with a 529 plan. Any growth of your savings will continue to accumulate tax free. In fact, parents can choose to leave an unused 529 account in the first beneficiary's name, creating an education legacy through which assets can be used later in life or ultimately passed down to the beneficiary's children.
- **Covers more than college tuition** In addition to tuition, assets in a 529 account can cover a variety of qualified higher education expenses — including fees, certain room and board costs, required equipment and supplies, as well as certain qualified expenses for special needs students. Qualified expenses for 529 plans also include computer equipment, software or internet access expenses used for college. And the Tax Cuts and Jobs Act, passed in December 2017, permits using 529 assets to fund private and religious elementary, middle and high school tuition.[2]
- **Can fund more than full-time undergraduate education** 529 assets can be used even if your student decides to attend college part time. 529 assets can also be used for graduate school, for eligible trade and technical schools, and for qualifying two-year associate degrees — anywhere in the US and abroad — provided the educational institution is eligible under the rules applicable to 529 plans. Eligible educational institutions generally include all post-secondary institutions that participate in US Department of Education student financial aid programs. Additionally, the Setting Every Community Up for Retirement (SECURE) Act, signed into law on December 20, 2019, expanded the definition of qualified higher education expenses to include apprenticeship programs.
- **Can be used to pay off student loans** The SECURE Act also allows 529 plan holders to withdraw any remaining savings to pay down their own student loan debt — or that of their children, grandchildren, or spouses. That is, if a family's youngest child finishes college with a balance in the 529 account, the family could use the leftover money to help pay down undergraduate or graduate school student loans of an older sibling. The law stipulates an aggregate lifetime limit of $10,000 in qualified student loan repayments per 529 plan beneficiary and $10,000 for each of the beneficiary's siblings. This means a family with two children could withdraw a total of $20,000 to pay down student loans.[3]

- **Allows for investment changes** If your student pushes college out for many years, you may want to move out of an age-based plan that becomes more conservative over time and take on more risk with your college savings. Or, if market volatility increases, you may want to move your college money into a more conservative allocation, even though college may be years away for your student. Investments in a 529 plan can be changed two times per calendar year and upon a change in the beneficiary.
- **Permits low contribution amounts** A recent government report indicates that through mid-July 2020, half of all adults live in a household that has lost some employment income since March 2020.[4] The SSGA Upromise 529 Plan allows you to open an account with a one-time contribution of just $15 by electronic bank transfer or check. After your account is funded, at any time you can make another contribution of $15 or more by electronic funds transfer or check. Recurring automatic contributions can be as low as $50 per month by electronic bank transfer, or $15 per pay period through payroll direct deposits.

## It Takes a Village, Now More Than Ever

Saving for college can be a difficult task — and a global pandemic and resulting economic pain only exacerbate the challenges. Choosing the SSGA Upromise 529 can provide your family more resources — and greater peace of mind. In addition to tax-advantaged saving, you benefit from the institutional asset management from State Street Global Advisors' Investment Solutions Group (ISG) and investment options powered by SPDR® ETFs and, where applicable, mutual funds managed by SSGA Funds Management, Inc.[5]

Also, the SSGA Upromise 529 Plan's UGift program allows friends and family members to contribute to your 529.[6] Gift contributions can be made online or by check. The contributions are coded to go into your 529 account, so there's no extra paperwork for you. And unlike many other gifting programs, gift givers don't have to join, register or pay a service fee.

**Bottom line** The 529 college savings plan's combination of professional management, tax advantages and flexibility can help your family to meet education funding goals from kindergarten through college — no matter how your student's plans change or the education landscape evolves. Especially in today's uncertain environment, the need for disciplined saving remains paramount. For more information on the SSGA Upromise 529 Plan, please call 866.967.2776 or visit **ssga.upromise529.com.**

1 Stacey Leasca, "For college students, taking a gap year good way to outwit coronavirus," Boston Herald, July 26, 2020.

2 Flynn, Kathryn. "529 Savings Plans and Private School Tuition." Savingforcollege.com, Saving for College, LLC, 15 Feb. 2018, savingforcollege.com/article/529-savings-plans-and-private-school-tuition.

3 Sarah Mouser, "The Secure Act and 529 Plans," Advisor Perspectives, April 13, 2020.

4 Congressional Research Service, July 29. 2020.

5 Although they invest in ETFs and/or mutual funds, the SSGA Upromise 529 Plan Portfolios are not ETFs or mutual funds themselves. As an SSGA Upromise 529 account owner, you will own units of the portfolio, which are municipal fund securities, not shares of the ETFs or mutual funds.

6 Ugift is a registered service mark of Ascensus Broker Dealer Services, LLC.

**SSGA UPROMISE 529 PLAN**
P.O. Box 55578
Boston, MA 02205-5578

1-800-587-7305
ssga.upromise529.com

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**Please Note: Before you invest, consider whether your beneficiary's home state offers any state tax or other state benefits such as financial aid, scholarship funds, and protection from creditors that are only available for investments in that state's qualified tuition program.**

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