

PEPS WA529 Webinar 12/9/20

Participant Q&A



I've heard that it's better to open an account in another state (besides WA) that has better returns. Can you address that and why we would choose a WA account?

It would be helpful to better understand the context of the question and what that perception is based on. That said, the 'right' 529 plan for a family is contingent on a variety of factors. The GET program, for example, can work quite well for families with young children who are risk averse and want an insurance-like product that provides a guaranteed outcome (i.e. if you purchase a year of tuition today, that year of tuition is covered no matter when you use it in the future, how much tuition grows, or how financial markets perform). On the other hand, families who have a higher tolerance for investment risk might find college investment plans such as DreamAhead to be a better fit. It is important to research different 529 plans, including investment lineups and fee structures (since fees can impact net investment returns). Note that DreamAhead was recently evaluated by investment research group, Morningstar, who [awarded DreamAhead with a 'Bronze medal.'](#) Morningstar considers 'medalist' plans to be "best-in-class" plans that should serve savers well. Note that GET and other prepaid tuition plans are not included in Morningstar's coverage as these plans are quite different from one another, are hard to compare side-by-side, and are typically only open to residents of the plan's state. The College Savings Plans Network is a great place to compare every state's 529 plans: www.collegesavings.org.

What are the minimums?

For GET: The minimum lump sum purchase is one unit (currently \$133 through June 30, 2021) within 90 days of enrolling. After the first unit is purchased, units can be purchased in any increment – even partial units. Custom Monthly plans, which allow you to lock in the current unit price and pay a set monthly price over a selected contract length start in 50-unit increments (note that Custom Monthly Plans included a finance charge).

For DreamAhead: \$25 initial contribution; \$5 minimum per portfolio for subsequent contributions.

You can learn more at <https://wastate529.wa.gov/explore-options>

Are there fees associated with making any of these account changes (beneficiaries or account holders)?

There are no fees for changing beneficiaries or account owners for either plan. Other 529 plans may or may not charge for these types of changes. More information on WA529 fees can be found on our website:

- [GET Pricing, Payout and Fees](#)
- [DreamAhead – What are the fees?](#)

NOTE: You can find answers to many of these questions and more on the Frequently Asked Question Page on the WA529 website: <https://wastate529.wa.gov/faqs>

What is a realistic goal to save for and how to plan to achieve that goal?

Savings goals look different for every family. Making a plan to save while your student is still young can help reduce reliance on future borrowing. It's also important to be realistic in setting savings goals. Too often, families wait to save, because the thought of paying for college can seem overwhelming. The reality is that most families will not be able to save enough to cover every future college expense, and that's okay. Most families rely on a combination of efforts to pay for college, including financial aid, scholarships, loans, income, and savings.

Look at your current financial situation, budget, and expenses and find an amount you can comfortably afford to dedicate to college savings. Then make a commitment to making regular contributions (e.g. monthly) and review your efforts regularly. As your financial situation changes (e.g. you receive a pay raise or inheritance) you may want to consider increasing your on-going contributions. Remember that as a state program offering 529 plans directly to the public, we cannot provide tailored financial advice to you. We always encourage families to consult with a financial and/or tax advisor when/if they are able to do so. Another resource you may want to consider checking out is a planning for higher education guide developed by a Seattle-based non-profit that we partner with:

<https://centsprogram.org/planning-for-higher-education-for-families/>.

We are planning on moving out of state relatively soon. What are the implications for starting a college savings plan here in WA if most of the contributions will be coming while living in another state?

GET (and most other prepaid tuition plans) does require either the account owner or student to be a state resident when opening an account. The great news is that once an account is already open, you can continue making contributions and use your 529 benefits anywhere, no matter where you move. College investment plans such as DreamAhead typically have no residency requirement to open an account. An important consideration is, if you know where you are moving to, it is a good idea to review what 529 plans are available in that state and if there are any special state tax benefits available when you open an account with that state's plan. To learn more about 529 plans nationwide, visit:

www.collegesavings.org

What is the advantage of using a 529 over something like a Roth IRA?

The primary advantage of a 529 plan is that it is a savings tool that is specifically designed for college savings. Any account earnings grow tax-deferred and remain tax-free when used for qualified education expenses. Additionally, it can help you maintain the mindset that the money you are putting away for college remains dedicated to that purpose.

Roth IRAs are intended to be a retirement savings vehicle. Keep in mind that if you make withdrawals from a Roth IRA for purposes other than retirement, that could impact your ability to reach your retirement savings goals. That said, there may be a place for Roth IRAs in some family's college and/or broader savings strategies due to unique rules about how you can structure your withdrawals. If you are looking to consider such a strategy, we strongly recommend talking with a financial advisor and keeping in mind that various savings tools are rarely mutually exclusive. That is, a family can choose to rely on many combinations of efforts to achieve their college savings goals.

NOTE: You can find answers to many of these questions and more on the Frequently Asked Question Page on the WA529 website: <https://wastate529.wa.gov/faqs>

Value of in state or out of state tuition?

Assuming this question is regarding GET, the program works on a unit system where 100 units will always equal one year of resident (in-state), undergraduate tuition and state-mandated fees at Washington's highest priced public university (UW or WSU). While valued based on these schools, the funds can be used at any institution that participates in federal financial aid programs, registered apprenticeship programs, or for tuition at K-12 institutions. Wherever and however you choose to use your funds, GET units will always pay out at the same rate in the year that they are used. So, if you use GET at a less expensive institution than UW/WSU (such as Western Washington University) you would need less than 100 units to cover the cost. On the other hand, if you are paying out of state tuition or private school tuition, you will likely need more than 100 units to cover the cost of a full year.

Do you have a historical analysis or graph of the comparison between tuition growth as a percent and rate of return on the DreamAhead plan?

You can find a graph of Washington state tuition growth over the last 20 years on our website:

<https://wastate529.wa.gov/sites/default/files/2020-10/2020-21-Tuition-Payout-Over-Time-Chart.pdf>

DreamAhead has only been open since 2018, so there is not a historical basis on which to compare that program's returns to long-term tuition growth. You can find up-to-date performance information for DreamAhead at: <https://wastate529.wa.gov/price-performance>.

If higher education in the US becomes free or near free before our child enters college, what would happen to the funds in these plans?

The first thing to consider is that there are many more expenses associated with a college education outside of tuition. Further, the funds you save in a 529 plan will always be there in the future whether or not you use them for college costs (though will be impacted by changes in tuition over time in the case of 529 prepaid tuition plans or impacted by financial market performance in the case of 529 investment plans). Keep in mind that if you withdraw funds for non-qualified expenses, taxes and penalties may apply to the earnings portion of your withdrawal.

Considering GET specifically, since a tuition unit's value is tied to in-state tuition rates, it is important to consider that most "free" college proposals put forward in our state have emphasized increased financial aid to more families living in the state, rather than actually changing the tuition "price tag" to \$0. While we cannot predict, nor guarantee, how things will change in the future, the Legislature has set already set multiple precedents that if tuition policy drastically changes, adjustments are considered for GET savers.

Can both plans be used to pay for expenses-related to post-baccalaureate degrees – Masters, PhD, etc.?

Yes. Both GET and DreamAhead can be used towards undergraduate studies, graduate studies, many different types of certificate and technical programs, community college, and even registered apprenticeship programs. Over time, the federal government has continued to expand the types of expenses and institutions that 529 funds may be used at to receive tax-free treatment, including K-12 tuition expenses.

NOTE: You can find answers to many of these questions and more on the Frequently Asked Question Page on the WA529 website: <https://wastate529.wa.gov/faqs>

Do you have any suggestions on how to tactfully request that friends/family contribute to a 529 account as opposed to giving toys/other gifts?

The answer to this question may look very different for every family and the “right” approach may be quite personal. In many conversations and relationships, a direct ask for a contribution to your student’s 529 plan may be perfectly acceptable and warmly welcomed. In other cases, a doting grandparent, aunt, or uncle may strongly prefer to gift a toy. In such a situation you could consider a hybrid approach – acknowledge your appreciation for toys but ask them to consider a smaller toy purchase along with a gift contribution to your 529 plan. Remember that the gift of education is one that will last a lifetime. We help make it easy for GET and DreamAhead account owners to [suggest a gift to friends and family](#), and for friends and family to [make a gift contribution](#).

If UW drastically lowered its tuition in the future, could the GET account balance actually be worth less (on a \$ basis) than the total contributions?

The state did actually recently experience this. In 2015, the Legislature passed a law that reduced tuition at all state universities and community colleges over the course of two years. This was unprecedented and had never happened in the state’s history. Tuition at UW and WSU was reduced by a phased 15%. At that time, the Legislature decided to protect the value of GET customer accounts by requiring GET to add more units to offset the decrease. The Legislature intended this to be a one-time adjustment. If future tuition were ever lowered at UW, it would be possible for the monetary value of a unit to lose value **if** the Legislature did not authorize any offsetting adjustments. We disclose this in our program materials. While we cannot predict the future, we do not anticipate further significant tuition reductions.

Can 529 plans be used for study abroad programs?

Yes. As long as the institution that you are paying tuition to participates in federal financial aid programs, you can use 529 funds there. In some cases, the foreign institution may be able to accept payment directly, and in others, the payment made need to be made via the home institution. FAFSA’s Federal School Code Search page is a great place to find eligible institutions: https://fafsa.ed.gov/spa/fsc/#/SEARCH?locale=en_US.

Would it be beneficial to open both a GET and 529 investment plan? Or just choose one to stick with?

The answer depends on your individual family and financial circumstances, your comfort with investment risk, and your college savings goals. That said, many families find value in saving with multiple tools, including GET and DreamAhead, and that was one intent of the Legislature in creating DreamAhead as a complementary program to GET. While GET can be used to pay for a variety of expenses, it is priced and valued based on Washington tuition rates. The cost of college goes beyond tuition and fees; it includes room and board (even if a student is living off campus), books, and supplies. It is important to consider that you GET the maximum value out of a GET account when you start when your kids are young. Start your savings with GET becomes less beneficial as students become older (i.e. middle school and high school years). DreamAhead (and all 529 plans) also benefits from a longer savings horizon but offers various flexible options that may be more appropriate for older students.

NOTE: You can find answers to many of these questions and more on the Frequently Asked Question Page on the WA529 website: <https://wastate529.wa.gov/faqs>