# Should You Change Section 529 Plan Investments?

**By Donna Laubscher, CPA**
(480) 483-1170 ~ DonnaL@hhcpa.com

Growing legions of parents have invested in Section 529 plans for college. According to a spokesperson for the College Savings Plan Network, in 2008 about 11 million account investors held more than $129 billion in such plans. However, stock market volatility has caused the value of many accounts to plummet during the past year.

At least a new IRS ruling provides greater flexibility to Section 529 plan investors. It allows you to change your asset allocation more than once during the year to reflect current market conditions.

You can set aside funds in a Section 529 plan for the future education of your children or grandchildren. As long as certain requirements are met, there is no tax on the contributions to the plans, no tax on the accumulation of earnings and no tax on distributions when the funds are paid out for qualified distributions. If a child decides not to attend college or attends school in another state, you may transfer funds to another plan or "roll over" the funds for the benefit of a successor beneficiary (e.g., a younger child).

There are two main types of Section 529 plans: the prepaid tuition plan and the college savings plan.

- Essentially, a prepaid tuition plan is guaranteed to keep pace with the rising cost of college tuition. For instance, say that it currently costs $10,000 annually to send a child to a state university. You pay $10,000 now to buy shares in a plan for a youngster. When the child is ready to go to school, your shares pay for an entire year of tuition—no matter what it costs at that point. This type of plan is often attractive to parents because it offers peace of mind. There is no risk of loss of principal, and the investment is usually guaranteed by the state.

- With a college savings plan, there is no guaranteed lock on future tuition costs. In fact, the savings may not be enough to cover all of the costs, but there is a bigger potential upside as well.

Usually, the plan will offer an asset allocation strategy geared to the current age of the child or the year he or she will enter school. For example, the plan may provide more aggressive investments in the early years and switch over to more conservative investments as college approaches. The funds are managed by professionals.

Initially, proposed regulations allowed Section 529 investors to choose a basic investment strategy, but only at the time the account was established. Subsequently, the IRS allowed Section 529 account investors to revise their investment strategy once a year (in addition to changes permitted upon switching beneficiaries).

Now the new ruling gives you more leeway. You can change your investment strategy twice in 2009 if you desire. This pronouncement was precipitated by concerns over current stock market conditions. The annual limit is scheduled to be reinstated in 2010.

In light of the new ruling, this may be an optimal time to review your Section 529 plan holdings. If you have any questions regarding Section 529 plans, contact your Henry & Horne, LLP professional.

---

**Donna H. Laubscher, CPA, is a Partner in the Scottsdale Office of Henry and Horne, LLP. Her areas of expertise include individual taxation and accounting services for business entities. Contact Donna at (480) 483-1170 or DonnaL@hhcpa.com.**