9 Myths About 529 College Savings Plans You Should Know

Most parents know how important it is to save for college. It's essential that parents start saving early and save often. Not thinking about the cost of college isn't going to make it go away. What parents may not realize is that there's a terrific way to save for school right in their own backyard. Of course, we're talking about the 529 plan.

For those of you who aren't in the know, the 529 plan is a tax-advantaged savings vehicle administered by your state. Named after the section of the U.S. tax code, the 529 plan allows parents (and family members) to open accounts where their investments can grow as they continue to save for college. It's way more effective than a shoebox under the bed! Because each 529 plan is offered by its individual state, some of the rules are different regarding how the 529 works.

That's why we wanted to bust nine different 529 plan myths so you can save for your kid's school with confidence.

1. I Can Only Use a 529 Plan to Pay for College Tuition

Pretty much everyone knows that a 529 plan is one of the best ways to save for college. However, a lot of people mistakenly think that funds from a 529 can only go toward tuition. That's actually not true! A 529 plan can be used to pay for anything that can be considered a "qualified education expense."

Naturally, this includes tuition. It also includes lots of other education expenses. You can use funds from your 529 account to pay for room and board, books, fees, and other supplies like laptops. And it isn't all just for college, either. You can even use your 529 to pay for K–12 tuition.

2. I Lose My Money if My Kid Decides College Isn't for Them

This is something that many people worry about when it comes to saving for school. What if you spend all that time saving, only for your child to decide that college isn't right for them? That's okay! Every person has a different path for success, and that doesn't always mean college. That said, what happens to the money in your 529 plan if junior decides not to attend?

The good news is that the money in the account is still yours. You have several options if your intended student decides not to go to school. One option is rolling your account to another beneficiary. As long as the new beneficiary is still a member of your family, you can continue saving and use that money for school without skipping a beat. If you end up taking it out entirely, you'll need to pay state and federal taxes on the earnings (that's the *interest)*. There's also an additional federal income tax penalty of 10 percent.

3. A 529 Plan Will Ruin My Chances of Other Financial Aid

Many families are counting on a financial aid package to help them pay for college. They're planning on filling out the FAFSA and taking advantage of grants, scholarships, and other forms of financial aid from their state and federal governments. These parents worry that having money in a 529 account will negatively impact their student's financial aid eligibility. The truth is that it won't have nearly as big an impact as you may think.

If the 529 account is made in the name of a dependent child or their parents, financial aid eligibility may be reduced by up to 5.64 percent of the account value. This may be higher if the account is in the name of an independent student. This can also change when a 529 plan is opened by a non-parental relative, like a grandparent. Thankfully, there are ways to avoid this. It's best to speak to an admissions officer or your financial advisor to learn more.

4. I Can Only Use my 529 Plan for Schools in My Home State

Because 529 plans are operated by their individual states, some people have come to believe that they can only use their 529 plan for schools in their home state. That's not the case. Students can use savings from a state 529 account, like an NC 529 Plan, at practically any college in the country.

All that's required is that the school is an "eligible higher education institution." This is a status that is determined based on if a school can participate in financial aid programs by the U.S. Department of Education. The school must also offer associate, bachelor's, graduate or professional or other post-secondary credentials. In some cases, vocational and foreign institutions may be eligible.

5. My Child is Too Old to Start a 529 Plan

This is a 529 plan myth we hear all the time. Plenty of parents think that it isn't worth it to start a 529 plan because it wasn't set up when their child was a baby. The truth is that it's never too late to start saving for college.

Whether your child is starting to walk or learning to drive, there's still time to save. Earning interest on your college savings adds up no matter what. It's still much more effective than having your money sit in a savings account.

6. I Make Too Much Money for a 529

Because the 529 plan is such an excellent way to save for college, it can be easy to think that it's only available to families that make less than a certain income. Actually, 529 plans are designed to make saving for college easier for everybody.

There are no income limits on 529 plans. That means it doesn't matter how much, or how little, you make, you can start a 529 plan and start investing for college today.

7. I Can't Afford a 529 Plan

On the other end of the spectrum, another myth that we hear is that families can't afford to start a 529 plan. Nothing could be further from the truth! Like we have established, the 529 plan was made to help everyone save for college. That's a big reason why a 529 plan is so affordable to start and maintain.

Families can start their own NC 529 Plan with a minimum contribution of only $25. Every little bit helps when it comes to saving for college. You may be surprised by how much of a difference $25 a month can make over a few years, especially when you add in compounded interest.

8. My Child Can Just Take the Money When They are 18

This is a surprisingly common fear we hear from parents. Families worry that their child might simply take the money and run when they hit 18. Thankfully, there isn't a lick of truth to any of it. When it comes to 529 plans, the original account owner has control of the account.

A 529 plan isn't like a trust fund or other account with money for your child. The beneficiary of a 529 plan has no legal rights to any of the money. The same goes for when they become a legal adult. The account owner holds onto the funds and decides how they're used.

9. You Can Only Use a 529 Plan to Pay for Public College

The last 529 plan myth we want to bust is about the schools where you can use funds from a 529 plan. Some families believe that a 529 plan can only be used to pay for public colleges. We're guessing they get confused because of how 529 plans are run by states.

The truth is that, as we mentioned earlier, the funds form a 529 plan can be used at any qualifying education institution. That means you can use your 529 funds to attend a big state school, a smaller private school, and many excellent institutions in between!

Ignore the Myths and Start Saving Today!

We know that saving for school can seem complicated. This is especially true with so much information out there about what you can and can't do regarding your college savings. Now that we've busted these 529 plan myths for you, we hope you might be inspired to start a savings plan of your own. Don't wait to start saving for college. Open your NC 529 Plan and begin saving for your student's future today.