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A 529 college savings plan is a tax-deferred program that enables parents, grandparents and others to save for college federal income tax-free. New York State taxpayers also have another important advantage â€“ they can deduct up to $5,000 ($10,000 for a married couple) of 529 plan contributions. 529 plan contributions are not deductible for federal income tax purposes. New Yorkâ€™s 529 College Saving Plan can be used to pay for tuition, many room-and-board expenditures, books, supplies, and certain other qualified higher-education expenses.

New York's 529 plan is open to any U.S. citizen or legal resident who has a valid Social Security number or taxpayer identification number (TIN). An account owner must have a valid residential address (other than a post office box). The future college student (sometimes referred to as the beneficiary) must also be a U.S. citizen or legal resident a valid Social Security number or TIN. Any eligible individual can open an account, there are no income or state residency requirements.

The money can be used to pay tuition, fees, books, certain room-and-board expenses, supplies, and other qualified higher-education expenses at any eligible most colleges, universities, graduate or vocational schools in the United States and abroad.

Unlike other savings and financial products like a brokerage account or a juvenile life insurance policy, earnings on nonqualified withdrawals from a 529 plan may be subject to federal income tax and a 10% federal penalty tax, as well as state and local income taxes.

529 plans have generous contribution limits, designed to keep up with the rapidly increasing cost of college. A parent or grandparent, for example, can contribute on behalf of a 529 plan beneficiary until the total balance of all 529 college savings plan accounts held for the same beneficiary reaches a balance of $375,000.

Financial planning experts generally recommend a diversified portfolio of equity and fixed income products to achieve growth with lower risk and volatility. New York's 529 College Savings Program offers sixteen different investment choices â€“ from age-based portfolio options that automatically rebalance to a more conservative allocation when the child is getting ready for college and thirteen individual portfolios that an owner can adjust according to his or her own investment strategy and risk tolerance.

The most important thing is to start saving early and often. Compounded tax-advantaged growth has a powerful effect on personal savings and taking the important step to start a college savings program can help make the dream of a college education a reality.

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James Garfinkel - About Author:
James Garfinkel, founder and CEO of New Amsterdam Life Insurance Foundation. Find out more about a 529 College Savings Plans and a Child Life Insurance quotes at

http://www.newamsterdamlife.com

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