THE BEACON

MAKING A 529 PLAN GO FURTHER

Strategies to maximize tax advantes and coordinate college funding when savings fall short.

By Bennett Pardue, CFP®, CDFA®

For many well-intentioned parents, saving for college through a 529 plan feels like doing everything right. Contributions grow tax-free, withdrawals can be tax-free when used properly, and the account is designed specifically for education. Yet when college finally arrives, some families discover that the balance falls short of the full cost. Rising tuition, housing expenses, and education inflation have turned college planning into a moving target, even for disciplined savers. The good news is that a 529 plan can still play a meaningful role, even when it does not fully fund four years of school. The key is how the money is used, when it is distributed, and how it coordinates with other resources. Thoughtful strategies can help parents maximize tax benefits, avoid costly mistakes, and stretch limited savings further.

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Qualified Expenses

The primary advantage of a 529 plan is tax-free withdrawals, but only when distributions are used for qualified education expenses. At the college level, these expenses include tuition, mandatory fees, books, required supplies, computers, internet access, and room and board for students enrolled at least half-time. Room and board is subject to limits based on the school's published cost of attendance, especially for students living off campus. When funds are limited, it is often best to reserve 529 dollars for clearly qualified expenses such as tuition and required fees. These

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expenses are straightforward to document and provide the strongest tax benefit. Using 529 money for non-qualified costs can trigger income tax and penalties on the earnings portion of the withdrawal, reducing the effectiveness of the account.

Timing

One of the most common 529 mistakes involves the timing of the distributions. Distributions must occur in the same tax year that qualified expenses are paid. Paying tuition in January while taking a distribution in December, or the reverse, can unintentionally result in a taxable withdrawal.

Academic calendars can complicate this further. Spring semester tuition bills are often issued in December for a semester that begins in January. Families should coordinate payments and withdrawals so that both occur within the same calendar year. This helps ensure consistency between Form 1098-T from the school and Form 1099-Q from the 529 plan administrator.

Careful recordkeeping is essential. Retaining tuition statements, housing invoices, and receipts provides clarity at tax time and helps support the tax-free nature of the withdrawal if questions ever arise.

Other Timing Considerations

When a 529 balance will not cover all costs, it is rarely optimal to spend it all in the freshman year. College expenses often increase over time, and families may benefit from spreading withdrawals over all four years. Some parents intentionally preserve 529 funds for later years, when scholarships may decrease or housing costs rise. Others use the account primarily for room and board once grants and discounts reduce tuition expenses. There is no single correct approach, but the guiding principle is to avoid exhausting the account too early unless there is a clear tax or cash-flow reason to do so.

Let the 529 Complement Other Funding Sources

When college costs exceed 529 savings, the account should be viewed as one part of a broader funding strategy. Most families rely on a combination of current income, savings, financial aid, scholarships, and loans.

In many cases, limited student borrowing, particularly through federal student loans, can be a reasonable choice when it allows the 529 to be used efficiently and helps parents preserve retirement assets. Paying some expenses from cash flow can also allow remaining 529 funds to continue growing tax-free for future years. Parents should be cautious about draining their retirement account or sacrificing long-term financial security in order to fully fund college.

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Education is important, but it should not come at the expense of financial stability later in life.

Be Mindful of Financial Aid Considerations
Parent-owned 529 plans are treated relatively favorably in the financial aid process and are generally assessed as parental assets. However, distributions can affect aid eligibility depending on account ownership and timing.

While recent Free Application for Federal Student Aid (FAFSA) changes have reduced penalties related to certain distributions, families should still coordinate withdrawals thoughtfully, especially when 529 accounts are owned by grandparents or other relatives. Understanding how distributions may interact with financial aid calculations helps avoid unintended reductions in eligibility.

Take Advantage of Expanded Flexibility
529 plans are more flexible than many families realize. In addition to traditional college expenses, funds can be used for certain vocational programs, apprenticeships, certification costs, and limited student loan repayment.

If a balance remains after undergraduate education, the account does not need to be hurriedly spent. Funds can be used for graduate school, reassigned to another family member, or potentially rolled to a Roth IRA for the beneficiary under current rules and limitations. This flexibility reduces pressure to over-distribute funds during the college years.

A failure? No way!
An underfunded 529 plan is not a failure. When used thoughtfully, it can still significantly reduce the cost of higher education. The value comes from strategic timing, careful coordination with tax credits, and intentional use of qualified expenses.

Families who approach 529 distributions with a plan, rather than reacting to tuition bills, often find that their savings go further than expected. Viewing the 529 as part of a broader financial strategy allows parents to support education goals while still protecting their long-term financial health.

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CHOOSING THE RIGHT BUSINESS RETIREMENT PLAN

By Joseph Scappatura, CFP®

For many individuals, retirement saving starts automatically through a workplace 401(k) or 403(b). For self-employed professionals and small business owners, however, the responsibility rests squarely on their own shoulders, and that can feel overwhelming.

Choosing the right retirement plan isn't just about saving for the future. It also affects your taxes, your cash flow, and how sustainable your business is over time. The good news is that business owners usually have more retirement plan options than traditional employees. The challenge is understanding which option actually fits your situation.

Starting Simple: Traditional IRAs and Roth IRAs

Before looking at business retirement plans, it helps to understand the basics. Individual Retirement Accounts (IRAs) are often the first step for those who are self-employed.

A *Traditional IRA* allows individuals with earned income to contribute on a pre-tax basis. Contributions may be deductible, investments grow tax-deferred, and withdrawals in retirement are taxed as ordinary income.

A *Roth* IRA is funded with after-tax dollars. Contributions are not deductible, but qualified withdrawals in retirement are tax-free. For some savers, this tax-free income later in life can be appealing. While both types of IRAs are widely used, they come with two key limitations for higher-earning professionals:

1. Lower contribution limits: Annual contributions are capped at $7,500, or $8,600 for those age 50 and older (2026 calendar year).
2. Income restrictions: Eligibility to contribute to a Roth IRA may be reduced or eliminated at higher income levels. Traditional IRA deductions can also be limited if the individual or their spouse participates in another retirement plan.

For many self-employed individuals, IRAs are a helpful starting point, but they are rarely enough on their own. As income grows or business needs become more complex, most owners benefit from retirement plans designed specifically for businesses.

Why Business Owners Often Need More Than an IRA

Business retirement plans are designed to address those gaps. They generally allow for higher contribution limits, more flexible tax planning, and structures that reflect how a business actually operates. While there are several options available, three plans tend to come up most often for small business owners. Each of the following are designed for different business structures and goals.

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SEP IRA: Simplicity and Flexible

A SEP IRA (Simplified Employee Pension) is known for being straightforward and flexible. It is relatively easy to establish and requires minimal ongoing administration, which makes it appealing for business owners who want to keep things simple.

Contributions to a SEP IRA are made entirely by the employer. For sole proprietors and owner-only businesses, that generally means the owner is contributing on their own behalf. Annual contributions can reach as much as 25% of an employee's compensation or the lesser of $72,000/year.

One of the most attractive features of a SEP IRA is flexibility. Contributions are discretionary, meaning a business can contribute more in strong years and reduce or skip contributions when cash flow is tighter. SEP IRAs can also be established and funded as late as the business's tax filing deadline, including extensions, which can be useful for year-end tax planning.

Solo 401(k): Designed for Owner-Only Businesses

A Solo 401(k), sometimes called an Individual 401(k), is designed for businesses with no employees other than the owner and, in some cases, a spouse or partner. For qualifying businesses, it is often one of the most effective tools for building retirement savings.

What makes the Solo 401(k) unique is that the owner can contribute in two roles. Contributions are made first as an employee through salary deferrals, and then again as the employer through profit-sharing contributions. This structure allows for much higher potential savings than many other retirement plans, especially at lower to moderate income levels.

SIMPLE IRA: Best for small teams who want a retirement benefit without heavy admin

For small businesses with employees, a SIMPLE IRA (Savings Incentive Match Plan for Employees) can be a practical middle ground between individual accounts and a full-scale 401(k). With a SIMPLE IRA, employees can contribute directly from their paychecks. Employers are required to contribute as well, either by offering a matching contribution up to a set percentage of pay or by making a fixed, non-elective contribution for all eligible employees. This structure allows employees to take an active role in their retirement savings while ensuring the employer also participates.

From an administrative standpoint, SIMPLE IRAs are generally easier and less expensive to manage than traditional 401(k) plans. That simplicity can make them appeal to business owners who want to offer a retirement benefit without taking on significant complexity.

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The trade-off is flexibility. Contribution limits are lower than those available through SEP IRAs and Solo 401(k)s, and employer contributions are required each year, which can feel restrictive during periods of uneven cash flow.

Choosing the Right Plan

With several retirement plan options available, choosing the right one depends on a few core factors, including how your business is structured, whether you have employees, and how consistent your income is from year to year.

Some business owners value simplicity and flexibility, while others focus on maximizing contributions or offering competitive employee benefits. There is no one-size-fits-all solution, but understanding how each plan works can make the decision much clearer.

The right retirement plan should support where your business is today while allowing flexibility as it grows. With thoughtful planning and the right guidance, it can become an important part of both your long-term financial strategy and your overall business plan.

Plan Type	Best Fit For	Who Contributes	How Much You Can Save	What It Means for Employees	Setup & Upkeep
Traditional IRA	Individuals getting started	Individual	Lower annual limit	No employee impact	Very simple
Roth IRA	Individuals wanting tax-free income later	Individual (income limits apply)	Lower annual limit	No employee impact	Very simple
SEP IRA	Self-employed & small businesses	Employer only	High (percentage of pay)	Same % required for all eligible employees	Simple
Solo 401(k)	Owner-only businesses	Owner as employee and employer	Highest potential for solo owners	Not available if you have employees (except spouse)	Moderate
SIMPLE IRA	Small businesses with employees	Employee and employer	Moderate	Employer contributions required	Low–moderate

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**Contribution limits, eligibility, and tax treatment depend on IRS rules and individual circumstances.* The information provided is intended for general education only and is not individualized financial advice. Retirement plans discussed may not be suitable for all individuals, and eligibility, contribution limits, and tax treatment depend on personal circumstances and current law. Individuals are encouraged to consult with a qualified financial advisor, CPA, or tax professional before making retirement or investment decisions.

WHAT'S NEW AT NCG

Our Wealth Management Specialist Chris Brockett and his wife welcomed a new baby in May.

Congratulations to the Brockett family and their baby girl!

With three offices to serve you:

1266 East Main Street
6th Floor
Stamford, CT 06902

612 Wheelers Farms Rd
2nd Floor
Milford, CT 06461

90 Woodbridge Center Dr.
7th Floor
Woodbridge, NJ 07095

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