

529 Savings Plan vs. Whole Life Insurance

| | 529 Savings Plan | Whole Life Insurance |
|--|---|--|
| Save for Anyone: | You can save money in a 529 plan for anyone — your child, grandchild, niece, nephew, friend, or even yourself. | In whole life insurance plans, you can also save for anyone — your child, grandchild, niece, nephew, friend, or even yourself. In addition, a whole life insurance policy offers the ability to save for any person, regardless of their relationship to you, as well as, any company, educational institution, or charity of your choice. |
| Tax Advantages: | 529 plans are funded with after-federal-income-tax dollars. Your money in a 529 plan grows tax-deferred and withdrawals for qualified higher education expenses are free from federal tax. *note: some states also allow you to take deduction on your state income tax filing for a contributions you've made to a 529 plan. | Whole life insurance plans are funded with after-federal-income tax dollars. Your money grows tax-deferred and withdrawals taken out as policy loans are tax-free as long as the policy remains in force. whole life plan cash value earnings also accumulate on a tax-deferred basis and, if managed properly (via withdrawals and/or loans), can be also be withdrawn on a 100 percent tax-free basis. |
| Contribution limits: | For 2014, this maximum that one person can contribute to a 529 plan is \$14,000. The restriction is per beneficiary, per person, so a married couple can contribute \$28,000 to a 529 plan per beneficiary without incurring gift tax penalties. Another option for funding a 529 is to front-load the plan with a contribution that covers the next five years. This means that a person can contribute up to \$70,000 at once to a single beneficiary (\$140,000 for a married couple) without incurring gift taxes, as long as no further gifts are made to the same beneficiary until the sixth year. | Similar to 529 plans, whole life plans have certain contribution limits, particularly within the first seven years of the policy. However, most whole life plan contribution limits can be structured to exceed the limits of a 529 plans, and they are also not limited to the \$350,000 lifetime limit of a 529 plan. |
| Investment Flexibility and Risks: | 529 plans are investment-based, providing opportunities to invest in predetermined funds or portfolios. | Whole life plans do not offer investment-based options and the possible upside return; however, they offer NO downside investment risk. Whole life insurance plans provide guaranteed cash value and non-guaranteed dividends. For many people, the peace of mind associated with safety and guarantees are far more attractive, particularly when saving for a specific time frame and/or goal such college savings. |
| Control: | You as the account owner, rather than the beneficiary of a 529 plan, maintain full control of all account assets and determine the timing and amount of distributions. | You as the account owner, rather than the beneficiary, maintain full control of the whole life plan cash value and determine the timing and amount of distributions. |
| Beneficiary options: | You can change beneficiaries, without penalty, provided the new beneficiary is a member of the previous beneficiary's family. | You can change whole life plan beneficiaries without penalty, at any time, and for any reason. In contrast to the family beneficiary restrictions of a 529 plan, a whole life insurance plan allows you to change the beneficiary to any person, institution and/or charity. You can also have as many beneficiaries to receive whatever percentage you choose as long as the total allocation across all beneficiaries equals 100%. |
| Financial Aid Impact: | 529 plans are included in the calculation of a parent's assets of expected family contributions as in related to a student applying for federal financial aid for college. | Life insurance values are NOT included in the federal methodology for calculating financial aid, so you will not be penalized for saving for college. |
| Non-qualified Withdrawal Penalty: | If not used for qualified tuition expenses, there is a 10% federal excise penalty over and above any income tax. | There are no such restrictions. Cash value withdrawals can be used for any purpose whatsoever and there are no penalties. |
| Ability to be used for colleges outside of U.S. | 529 plan funds can only be withdrawn without penalty for use at accredited colleges by the US Department of Education. | Withdrawals from whole life insurance plans can be used to help the student to attend a college in the the U.S. or an international college. There are no restrictions. |