AMG National Trust

A Better Way To Wealth

SPECIAL REPORT:

5 Fundamentals When Saving for College

Start planning and saving early—
and use every tax-advantaged tool possible.



Saving for higher education can seem complicated because it demands careful balancing of your current spending needs and future financial goals, including saving for your retirement.

Since higher education costs are high and growing at a faster rate than the overall economy, you need to start early, save smart, and position your family well for federal student aid programs. No one should assume they wouldn't qualify, especially if your family will have several children in college at the same time.

AMG advisors counsel families in balancing saving for college with retirement planning, maximizing the tax-deferred growth potential of education savings plans, investing assets wisely, and maintaining eligibility for financial aid.

Based on our fifty years of experience, we recommend five fundamentals that can help you save money and achieve your goals—when executed well.

STEP #1 Set Your College Savings Goals

The cost of a typical four-year undergraduate degree is significant for most families, averaging $123,960 for an in-state public school and $261,880 for a private college, according to the College Board Trends on College Pricing 2025.

But those are just the average numbers. Some of the most prestigious schools can exceed $80,000 per year.

Today's prices already are high and the pace of tuition inflation is high also. The average cost of tuition and fees in the U.S. has risen at an average annual rate of 5% in the past 20 years, compared to 2% for prices as a whole.

Using the College Savings Plans Network's online calculator, you can get a sense of what the costs of attending a four-year college could be for a baby born today. Assuming the costs continue to rise at the 5% average annual inflation rate, expect to pay:

- $321,454 for in-state students at a four-year public institution
- $528,184 for out-of-state students at a four-year public institution
- $679,109 for students at a four-year private non-profit institution

One popular savings strategy is to target the projected cost of an in-state public college initially. As your child gets older and you have a better sense of their academic aspirations, you can always raise the targeted amount.

The key is to decide what you can do, do it as soon as is possible, and do it consistently.

STEP #2 Start a College Savings Account Early and Invest Often

The single most important thing you can do is to start saving for college as soon as possible and continue to save on a regular basis. This enables you to take maximum advantage of the power of compounding, which can be your best friend when it's time to write tuition checks. After all, a $500 monthly investment compounds to $174,601 in 18 years, assuming a relatively conservative 5% annualized return.

Working with a financial planner, you should put in place a long-term saving, spending, and investment strategy for your family that includes an emergency fund, your long-term retirement savings, and a college fund, among other financial priorities.

When balancing these competing demands on your financial resources, we encourage you not to jeopardize your own retirement. Think of this as the "airplane oxygen mask rule," which holds that you should take care of your own needs before addressing those of others.

In financial terms, this means that funding your retirement accounts and long-term savings should take top priority. Remember that student loans, grants, and other awards may be available to help with college expenses, if necessary.

Also, importantly, children learn about money from their parents. One of the most important life lessons you can teach is how to set priorities, pay yourself first, and work towards long-term financial goals with the flexibility to adjust your financial planning as market conditions and your circumstances change—as they surely will during your child's pre-college years.

Make saving for your children's college education as easy as possible. Schedule automatic monthly deductions. Direct "extra" money such as year-end bonuses, tax refunds, or inheritances toward a college fund. Many families get used to paying for infant and toddler childcare and choose to direct a similar amount toward college savings once the child attends public kindergarten.



STEP #3 Make Use of Tax-advantaged College Savings Accounts

How you save is almost as important as how much you save for higher education expenses.

There are savings accounts such as the popular state-sponsored 529 college savings plans that get favorable tax treatment when used for qualified education expenses. Some states also offer state tax deductions as an incentive for residents to use their state's 529 plan.

However, they require scrutiny. The investment options within these plans may be limited and they are subject to financial penalties if distributions are not used for qualified expenses.

A straightforward brokerage account can hold a much wider variety of investment options. However, brokerage assets neither grow on a tax-preferred basis nor enjoy exemption from all taxation if used for education expenses—which are among the key features that make 529 plans great.

The most sensible strategy, in our view, is to optimize the special tax benefits offered by tax-preferred education savings accounts based on your family's savings goals and state of residence, yet maintain maximum flexibility by considering other vehicle types.

Your financial advisor can help you select the savings vehicles that fit best within the context of your overall financial and estate plan.

529 plans

Sponsored by all states and the District of Columbia, 529 plans are legally known as "qualified tuition programs." They derive their name from Section 529 of the Internal Revenue Code, which granted the plans certain federal tax benefits and became law in 1996.

529 plans can be either prepaid tuition plans or education savings plans. They can be a versatile and tax-efficient way to save for a range of continuing education programs, technical programs, undergraduate programs, graduate programs, and even, in some states, K-12 schools. (You can search the U.S. Department of Education's accreditation database to see if your desired program is listed.)

What makes 529 plans so versatile?

- Anyone can open an account and name anyone else (typically the future college student) as the account beneficiary, including themselves.

- Multiple people can open accounts for the same beneficiary (e.g., parents and grandparents each have their own accounts for the benefit of the same child).
- There are no contribution restrictions by income or annual limits. Total contribution amounts are high, most in excess of $400,000 per beneficiary, depending on the state.
- Account owners have control over whether and when to disburse the money.
- If the beneficiary decides not to attend college or doesn't need all of the money in the account, the account owner can designate another beneficiary. Accounts can be used to pay for multiple beneficiaries over time in this way.
- Up to $35,000 per beneficiary may be rolled into a Roth IRA, subject to annual Roth IRA contribution limits.
- Should the beneficiary receive a tax-free scholarship or grant, the account owner can withdraw the amount of the scholarship or grant for any purpose without penalty.

What tax benefits do 529 plans offer?

- Contributions are not deductible on federal income tax returns, but many states offer a state income tax deduction as an incentive to use the home-state plan. You can invest in any state 529 plan you wish, so it benefits you to consider not only the state tax deduction, but types of plans, plan costs and investment offerings, which can include index funds, mutual funds, and professionally managed target-risk and target-date asset allocation funds.
- Account assets grow on a tax-deferred basis until withdrawn.
- Withdrawals of principal are tax-free and withdrawals of gains aren't subject to federal or state income tax if used for qualified education expenses such as tuition, fees, and room and board. There is a 10% penalty levied on amounts withdrawn for non-education purposes.
- Contributions are considered completed gifts for federal tax purposes. Any contribution over the annual gift tax exclusion would require a gift tax return and count against your lifetime gift tax exemption. In 2026, the annual gift tax exclusion for individuals is $19,000 and for couples filing jointly is $38,000, per year per child.

What financial aid impacts do 529 plans have?

- When parents or a dependent student own a 529 plan account, assets are considered parent assets. These are counted more favorably than student assets in financial aid calculations.
- When grandparents or anyone else owns a 529 plan account, assets are not considered for student financial aid at all.

Caution: Recent enhancements to 529 plans were not adopted by all states

In the Tax Cuts and Jobs Act of 2017, Congress expanded 529 plans to be able to pay for up to $10,000 in tuition expenses at K-12 public, private, or parochial schools.

In the Setting Every Community Up for Retirement Enhancement Act of 2019, better known as the SECURE Act, Congress allows account owners to make a tax-free maximum lifetime withdrawal of up to $10,000 per beneficiary (and the beneficiary's siblings as well) to pay off federal or private student loans.

You should check your state's 529 plan carefully as many haven't incorporated these new provisions yet.

What if You Save More Than You Need?

It's possible that you'll have money left in your child's 529 accounts after paying for college. The SECURE 2.0 Act of 2022 helps solve this by allowing 529 plan assets to be rolled into a Roth IRA for the named beneficiary, subject to annual Roth IRA contribution limits and capped at a lifetime limit of $35,000.

What else can you do with the unspent account balance?

- Leave the money in the account in case your child might need it for graduate school or an eligible professional education program.
- Name another family member as the account beneficiary.
- Roll over the funds to a new account for a different beneficiary.
- Roll over to a Roth IRA.
- Withdraw up to $10,000 per child (and siblings as well) to reduce qualified student loan debt.
- Withdraw funds for a non-education purpose and pay both the income tax on the account's earnings (but not on contribution amounts) and the 10% withdrawal penalty. If the beneficiary child receives distribution and the child's tax bracket is low, the tax payment would be low as well.



Coverdell Education Savings Accounts (ESAs)

Coverdell ESAs are tax-advantaged educational savings accounts. They have become less popular over time as their most attractive provisions have been granted to 529 plans.

In contrast to 529 plans, they have relatively low maximum investment amounts of only $2,000 per year. And even that is phased out as your household income grows. You may not make any contributions at all if your marginal adjusted gross income is greater than $110,000 for single filers or $220,000 for married couples filing jointly.

On the plus side, they can offer a wider variety of investment options and lower fees.

Uniform Transfer to Minors Act account (UTMA)

Nearly all states and the District of Columbia have adopted the Uniform Transfer to Minors Act (UTMA), which allows custodial accounts to be created for minor children. The other states have a similar Uniform Gift to Minors Act (UGMA).

UTMA and UGMA accounts have no contribution limits, and gifts to them qualify for the federal annual gift tax exclusion. Accounts can hold almost any type of investment option and assets can be used for any purpose that benefits the named child.

While UTMA and UGMA accounts can help in the accumulation of money to fund a college education, they have two significant drawbacks:

- The child gains ownership of the account at the state's age of majority (typically between 18 and 21); at that point, the child is free to use the assets for any purpose, which may or may not include education costs.
- Assets in the child's name count higher in financial aid calculations than parent-owned assets—meaning that they may reduce the amount of financial aid that students can get.

One strategy employed by parents who use custodial accounts for college expenses is to transfer custodial assets to a parent-controlled 529 account **at least three years before** the child begins college to gain more favorable financial aid treatment. (The standard application form for federal student loans, the Free Application for Federal Student Aid, or FAFSA, bases its calculations on assets and income from two calendar years prior to freshman year.) Note that this makes the 529 account operate differently so be sure to understand the rules.

Roth IRA

While the Roth IRA is a retirement vehicle, it also can provide planning opportunities for college savers: Money used for qualified education costs escapes the 10% penalty for pre-age 59½ withdrawals. This can be attractive for people who have saved substantial amounts in their Roths that they might not need for retirement.

In contrast to a brokerage account, money in a Roth grows tax-free and can be withdrawn tax-free by meeting certain requirements. Because of its preferential tax structure, there are both contribution limits and qualifying income restrictions to Roth IRAs. For high-earners above the eligibility phase-out limits ($153,000 for single and $242,000 for joint filers in 2026), Roth IRAs may be created by converting all or part of a traditional IRA or by rolling over Roth 401k account assets.

Irrevocable trust

Irrevocable trusts are legal vehicles that should be drafted by an attorney and may have to report and pay income taxes yearly.

But irrevocable trusts' potential benefits can outweigh such practical inconveniences, and they can be used in conjunction with other planning tools; such as 529 plan accounts.

- They can be customized for the specific needs and circumstances of both the child beneficiary and the grantor.
- They can be drafted to allow distributions for a particular purpose (such as education costs) or for any purpose. The latter capability enables the trustee to use the assets to help pay both for college and, if the trustee allows, post-college expenses such as a first home.
- They offer considerable flexibility in terms of investment options.
- They can have multiple beneficiaries, which is highly advantageous for distribution flexibility. A trust

with four beneficiaries, for example, could distribute much more than the annual maximum gift exclusion ($19,000 for individuals and $38,000 for couples filing jointly in 2026) for each of the children in a single year.

- They are powerful estate planning tools in that they can reduce the grantor's taxable estate by the amount of growth on the gifted assets.

Investment accounts

While general investment accounts don't provide tax advantage, a growth-focused brokerage account is an under-the-radar vehicle that offers a number of useful attributes for college savers. Successful growth stocks or funds can generate significant appreciation over time that, potentially, can make a sizable dent in your college costs.

By owning growth stocks or funds in the account and holding them for the long term, you will only be taxed when assets are sold and at capital gains rates, which frequently are lower than regular income tax rates. Income from cash dividends and fund distributions, however, are taxable in the year in which they are received.

Investment accounts generally offer more investment options than a 529 plan. They have no minimum or maximum contributions, withdrawals are free of penalties, and you can allocate proceeds for any purpose. If you don't need all of the money in the account to help pay for college, you can use the rest for other things without tax penalties.

STEP #4 Get Other Family Members Involved

Helping to pay for college can be a particularly satisfying opportunity for grandparents. Not only do they gain the fulfillment of contributing to their grandchildren's education, but they also can obtain attractive tax and estate advantages in the process.

Direct tuition payment

If parents or grandparents pay tuition costs directly to the institution, the payments aren't subject to federal gift tax or generation-skipping transfer tax, no matter how large the payment is. Direct payments retain two big planning benefits: The amount of the payment reduces the payor's taxable estate, and the payor remains able to gift the student the annual $19,000 free of gift tax.

Note that the payment should cover college tuition only. Other expenses such as room and board, fees, and books don't qualify, so be sure to specify that your check is for tuition and send it with the school's tuition invoice.

Also, direct tuition payments may affect the student's eligibility for financial aid. If applicable, you should discuss this with the college and your financial advisor before making the payment.

Supercharging a 529

Like anyone else, grandparents can contribute to 529 plans that they or another person own. They additionally (again, like everyone else) can take advantage of a 529-specific rule that allows for the accounts to be "supercharged" by a large lump-sum contribution.

It works like this. In a single year, each grandparent can contribute five years' worth of the annual gift-tax exclusion (currently $19,000)—i.e., $95,000—and then split the exclusion over five years. If both grandparents set up 529 plan accounts for the same beneficiary, they can gift in total $190,000 in one shot. That's enough to fund about 61% of the $310,251 prospective cost for an in-state student at a four-year public institution in 18 years.

Supercharging is a win-win for the entire family. Grandparents help their grandchildren and reduce their own taxable estate by the amount of the contribution; parents are relieved of the pressure to pay for all college expenses; and grandchildren get a major chunk of their college cost funded in a lump sum years ahead of when they'll need it so income can grow.

Cash gift

It's common for grandparents to give their grandchildren cash to be used for college. While this used to be counterproductive, as such gifts previously appeared on the FAFSA form as untaxed student income which could reduce the grandchildren's eligibility for financial aid, student income is generally no longer requested.



STEP #5 Maximize the Potential for Federal Financial Aid

We've hinted at ways to maximize financial aid throughout and will summarize the key strategies below. Even if you are a high-earner or have high savings, we encourage you to look at the pros of applying for need-based financial aid, both from the federal government and the specific institution you wish to attend, versus the cons of disclosing to your child (or grandchild) your personal assets and investments.

You can research federal student aid programs and use free calculators like this student aid index calculator to estimate what your aid vs. family costs for attending college might be."

Here's the key to raising the odds that your application will be successful: Employ the following strategies at least **two to three years in advance** of when your child plans to start college and apply for aid.

The FAFSA uses prior-prior year assets and income—i.e. from two calendar years prior to freshman year—to determine whether to grant aid (and, if so, how much). If your child plans to enter college in the fall of 2028, for instance, you'll need to carefully plan your income flows, asset purchases, and asset sales for the calendar year 2026.



Increasing the odds of receiving financial aid

- Try to be among the first applicants when the FAFSA application period opens on October 1 in the year before your child enters college. Loans tend to be given on a first-come, first-served basis.
- Hold your long-term assets in qualified retirement plans, which are not reportable on FAFSA.
- Minimize your child's reportable income. This means, among other things, shunning cash gifts and distributions from trusts.
- Pay off any high-interest debt from taxable accounts, which will reduce your FAFSA reportable assets and save on future interest expense.
- Smooth out your annual cash flows by avoiding spikes in your income. In particular, try not to: make security sales that incur capital gains tax; exercise stock options; take withdrawals from retirement plans; receive bonus payments; or sell real estate or other assets.
- For divorced families, consider having the child live with the lower-earning parent. The custodial parent household (including unmarried partners) is the party required to fill out the FAFSA. Keep in mind that the child must meet your state's requirement for days of residence with the parent, and that child support and alimony are FAFSA reportable income.

How AMG Can Help

Saving for college can be challenging. It takes substantial financial planning.

For decades, AMG advisors have been trusted partners to client families and intimately familiar with their life goals and circumstances. AMG's integrated, holistic Personal Financial Management (PFM) model provides the clarity needed to adjust savings strategies when needed. Advisors recommend investment options that align with overall portfolio goals, forecast taxes, guide the timing of specific cash inflows and outflows, and coordinate with other family members—particularly grandparents—to maximize their legacy planning.

To book a free consultation call 800.999.2190 or email us at info@amgnational.com with the best day and time to reach you.

College Funding Vehicles (Based on 2025 Tax Laws, Regulations and Plan Rules)

	Qualified Tuition Program (QTP)—529 Plan	Coverdell Education Savings Account (ESA)	Uniform Gift/Transfer to Minor's Accounts (UGMA/UTMA)	Roth IRA Traditional IRA	Brokerage / Investment Savings *or* Irrevocable Trust Account
Income Restrictions	None	Ability to contribute phases out for incomes between $190,000 and $220,000 (joint filers) or $95,000 and $110,000 (single). Organizations such as trusts and corporations can contribute regardless of their adjusted gross income. No annual inflation adjustment.	None	Roth: contribution limit phases out for incomes between $236,000 and $246,000 (joint filers) or $150,000 and $165,000 (single). Traditional: deductible reduced or eliminated for taxpayers who participate in an employer retirement plan and have income above certain limits.	None
Maximum Investment	Established by the state; many in excess of $400,000 per beneficiary	$2,000 per beneficiary per year combined from all sources.	No limit	$7,000 ($8,000 for taxpayers age 50 and over) per year	No limit
Time/Age Restrictions	None	Contributions before beneficiary's age 18; distributions by age 30.	Custodianship terminates when minor reaches age of majority (generally 18 or 21, depending on the state).	Withdraw earnings tax-free only after five years and age 59 1/2	None
Federal Financial Aid Impact[1]	Counted as asset of parent if owner is parent or dependent student.[2]	Same as 529 Plan	Student's asset	Not counted as an asset; taxable withdrawals of principal and interest counted as financial aid income	Asset of account owner.
Income Tax Treatment	Non-deductible contributions for federal; some states[3] allow deduction for their plans; withdrawn earnings not taxed if used on qualified higher education expenses.	Same as 529 plan plus K-12 expenses also excluded.	Earnings and gains taxed to minor; first $1,350 of unearned income is tax exempt; unearned income over $2,700 for certain children under a certain age (generally between 18-25 depending on the state) is taxed	Non-deductible contributions; withdrawn earnings excluded from income after age 59½ – and five years; 10% penalty on early withdrawals waived if used for qualified higher education expenses	Earnings and gains taxed in year realized; lower tax rates for qualified dividends and capital gains.
Federal Gift Tax Treatment	Contributions are gifts; apply annual exclusion, ($19,000 in 2026) or up to $95,000 with 5-year election.	Same as 529 plan but 5-year election only available under special circumstances.	Transfers are gifts; apply $19,000 annual gift exclusion.	No gift involved.	Direct payments of tuition are not considered gifts.
Federal Estate Tax Treatment	Removed from donor's estate; partial inclusion for death during a 5-year election period.	Removed from donor's estate.	Value removed from donor's estate unless donor is custodian.	Value included in owner's estate.	Value included in owner's estate.
Beneficiary	Can change to another member of beneficiary's family; can roll to another QTP once per year.	Can change to another member of beneficiary's family.	No beneficiary; represents an irrevocable gift to the child;	Not applicable.	Not applicable.

(Continued)

College Funding Vehicles (Continued)

	Qualified Tuition Program (QTP)— 529 Plan	Coverdell Education Savings Account (ESA)	Uniform Gift/ Transfer to Minor's Accounts (UGMA/UTMA)	Roth IRA Traditional IRA	Brokerage / Investment Savings *or* Irrevocable Trust Account
Qualified Expenses	College tuition, fees, books, computers and related equipment, supplies, special needs; room and board for minimum half-time students. Up to $10,000 in tuition expenses for K–12 schools. Up to $10,000 in student loan repayment. Up to a lifetime limit of $35,000 can be transferred to a beneficiary's Roth IRA in certain circumstances.	Tuition, fees, books, computers and related equipment, supplies, special needs and some room and board for min. half-time students; additional types of K–12 expenses.	Generally no restrictions. Must benefit minor. May be limited by account provider.	Tuition, fees, books, supplies, equipment, and special needs services. Room and board for minimum half-time students.	No restrictions.
Nonqualified Distributions	Earnings subject to federal income tax (reported on Form 1099-Q) + 10% penalty	Same as 529 plan.	Funds must be used for benefit of the minor.	10% penalty on taxable portion of withdrawal prior to age 59½ (reported on Form 1099-R).	No restrictions.
Investments	Menu of investment strategies as developed by the program	Broad range of securities/investments.	Broad range of securities/investments as permitted by state law.	Broad range of securities/ investments.	Unlimited.

1 Financial aid formulas assess parent and child assets differently when computing eligibility for need-based aid on the Free Application for Federal Student Aid (FAFSA). Child assets are assessed at a flat 20% rate and parents are assessed on a bracketed scale with a top rate of 5.64%. Certain assets are sheltered from the process.

2 *Note:* The Higher Education Reconciliation Act of 2005 contained a drafting error, so neither Custodial 529 plans nor Coverdell ESAs owned by dependent students, where the student is both the account owner and beneficiary, are reported as an asset through June 30, 2009. Effective July 1, 2009, the College Cost Reduction and Access Act of 2007 corrected the error. Starting in the 2009-2010 academic year, these plans owned by a dependent student are treated as parent assets.

3 States allowing tax deductions for contributions to the state's own 529 plan(s) include: Iabama, Arizona, Arkansas, Colorado, Connecticut, District of Columbia, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas, Louisiana, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, New Mexico, New York, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, Utah, Vermont, Virginia, West Virginia, and Wisconsin. Arizona, Arkansas, Kansas, Maine, Minnesota, Missouri, Montana, Ohio, and Pennsylvania allow deductions for any state's plan.

DISCLOSURES

As of January 2026. This material has been prepared for informational purposes only, and is not intended to provide, and should not be relied on for, legal or tax advice. AMG's opinions are subject to change without notice, and this report may not be updated to reflect changes in opinion. Forecasts, estimates, and certain other information contained herein are based on proprietary research and should not be considered investment advice or a recommendation to buy, sell or hold any particular security, strategy, or investment product. Data contained herein was obtained from third-party sources believed to be reliable, but AMG does not guarantee the reliability of any information contained in this report.

AMG National Trust

A Better Way To Wealth

AMG helps executives, high net worth individuals, business owners, and institutions discover a better way to wealth. We work closely with you to develop integrated financial solutions customized to your unique goals and backed by our insightful research, thoughtful innovation, and decades of experience. Capitalize on your opportunities with a knowledgeable partner focused on your vision and your success.

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