THE WALL STREET JOURNAL.

http://www.wsj.com/articles/can-my-529-be-used-for-off-campus-housing-1462759212

Can My '529' Be Used for Off-Campus Housing?

Yes, but be careful. Our latest questions on paying for college.

ILLUSTRATION: DAN PAGE

By CHANA R. SCHOENBERGER
May 8, 2016

This is the month for most college graduations—a joyous occasion for many but also a reminder for some parents of younger children that the burden of college costs is looming.

We once again asked experts to weigh in on readers' questions about college savings, how to pay for school and, this time, when to retire strategically. Here are the experts' answers to some of the letters.

My daughter plans on living off campus for a couple of years. Can the money in a 529 account be used for these room and board expenses?

Yes, money in 529 college-savings accounts can pay for off-campus housing, but only if the costs don't exceed what the school charges for room and board, says Kimberly Foss, founder and president of Empyrion Wealth Management in Roseville, Calif. This applies only to students enrolled half-time or more, Ms. Foss says: "You cannot pay for the cost of an off-campus apartment with your 529 funds if your child is taking just one course or not enrolled at all for a particular semester."

Colleges can change their housing fees from year to year, so be sure to check the school's room and board costs each academic year before telling your daughter she can live off campus, says Deana Arnett, a financial planner at Rosenthal Wealth Management Group in Manassas, Va.

We have approximately $75,000 in a 529 account for our son, who's a junior in high school. Although our income precludes us from Fafsa aid [federal student aid], we are hoping our son will receive some merit-based grants. Our accountant has suggested that we withdraw only one-quarter of the funds in the 529 each year, so that we will still be earning interest on the balance. Is this the best strategy? How will this impact any other tuition assistance we apply for?

Don't completely write off your ability to get some financial aid at some point in your son's college career, and think about how that might affect your 529 withdrawal strategy, says Ms. Foss.

ASK US A QUESTION

- Have a question about college finance in general? We'll be answering them in future funds reports. Send them to reports@wsj.com (mailto:reports@wsj.com) .

PREVIOUS COLLEGE Q&A COLUMNS

- What About Coverdells? (http://www.wsj.com/articles/a-q-a-on-paying-for-college-1459735507) (April 2016)
- IRA 'Counts' for Aid (http://www.wsj.com/articles/a-q-a-on-paying-for-college-1457321022) (March 2016)
- Student Co-Owns Stock (http://www.wsj.com/articles/a-q-a-on-paying-for-college-1454900923) (Feb. 2016)
- Was 529 for Tuition? (http://www.wsj.com/articles/a-q-a-about-college-529-plans-1452482744) (Jan. 2016)
- Untaxing '529' Transfer (http://www.wsj.com/articles/an-untaxing-transfer-of-a-529-1449460385) (Dec. 2015)
- How to Be Smarter With a '529' (http://www.wsj.com/articles/how-to-be-smarter-with-a-529-account-1447038109) (Nov. 2015)

Consider whether you'll have a low-income or high-expense year while your son is in college—perhaps because you'll have two children in college at the same time, she says. If, for instance, you see such a year coming when your son will be a junior, she says: "Why not spend down the 529 in the first two years to give you a greater chance at aid in year three?"

Schools that award merit aid may ask families to fill out a CSS Profile form, which looks at 529s along with a family's other financial resources. Ms. Foss suggests calling the schools directly and asking how they factor in 529 funds when making aid decisions.

If my income qualifies me to contribute to a Coverdell education-savings account, what's the smartest way to split my contributions between a Coverdell and a 529 if I want to save for my children's college education? Can I contribute to both in the same year?

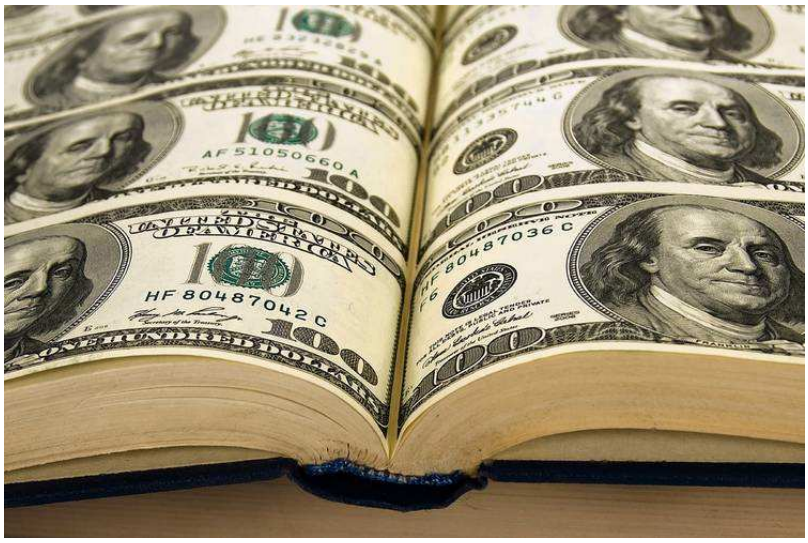
You can contribute to both. Each student can receive no more than $2,000 in Coverdell accounts annually. So some parents put the first $2,000 in a Coverdell and then save in a 529, where the contribution limits are much higher, Ms. Foss says.

Some things to consider when deciding how to split your contributions: Coverdell funds can be used for private elementary or high schools, as well as college. And you can invest the money in a Coverdell account in stocks, bonds, mutual funds or ETFs of your choice rather than selecting from a 529 plan's menu, allowing you more investment options and potentially lower fees than investments in a 529 account.

While it is possible to set up a Coverdell as a student-owned account, Coverdells are best set up as parent-owned accounts with the child as the beneficiary. Under this setup, students don't get control at age 18 as they might if the account is student-owned. In any case, funds must be distributed to the beneficiary by age 30. Also, calculations for college financial aid count a Coverdell, whether owned by a dependent student or parent-owned, at up to 5.64% of the amount in the account (the same as a 529).

Having a student-owned Coverdell become the child's property at age 18 means you no longer have any say about how the money is spent. "That's something that can stop parents dead in their well-intentioned college-savings tracks—you could think you are saving for college and end up funding a car or a vacation," Ms. Foss says.

Coverdells also have an age limit of 18 for contributions, while 529s don't have any limit, Ms. Arnett says. She says parents also should consider whether they'll be paying for private school before college or for college only, whether their state offers tax deductions for Coverdells or 529s and whether they would be better off buying into their state's prepaid college-tuition plan and locking in today's tuition costs.



A lower income in retirement could help boost financial aid. *PHOTO: ISTOCKPHOTO/GETTY IMAGES*

Do colleges take retirement into account when they figure required parental contributions? Would retiring a year or two early, before our child starts college, help reduce the required parental contribution? We've saved a few years' worth of college expenses in a 529 for our child and will enter retirement with a portfolio heavily weighted in IRAs, 401(k)s and 401(k) Roths.

There is no formal question on the Fafsa application about whether parents are retired, but colleges do take family income and assets into account, so a lower income in retirement could help boost aid. On the asset side, they can't force you to spend down retirement accounts like 401(k)s and IRAs, but they do consider nonretirement assets such as brokerage accounts, certificates of deposit, money-market investments and regular savings accounts when making aid calculations, Ms. Arnett says.

You will have to make a determination about whether the chance of more aid outweighs the risks of early retirement. Don't assume that's a trade-off you should make, says Ms. Foss: "Assuming you enjoy your work and are making a good living, why leave a job on the simple premise that retirement will help boost federal aid for college?"

Think about whether you're ready to make this transition, and whether you'd be able to get another job if it turns out your retirement didn't increase your child's aid enough to cover college costs and you need additional income.

Be aware that mandatory distributions from your retirement accounts, if you are old enough to have to withdraw money from them, will go into the formula. And colleges might look at whether you are overfunding your retirement accounts and factor your contributions into your student's aid calculations.

JOURNAL REPORT

- Insights from The Experts (http://blogs.wsj.com/experts/category/wealth-management/)
- Read more at WSJ.com/WealthReport (http://online.wsj.com/public/page/journal-report-wealth.html?mg=inert-wsj)

MORE IN INVESTING IN FUNDS & ETFS

- Fed-Proof Your Bondholdings (http://www.wsj.com/articles/how-to-fed-proof-your-bondholdings-now-1462759206)
- A-to-Z Matters for Stock Names (http://www.wsj.com/articles/is-investing-actually-as-easy-as-a-to-z-1462759218)
- Secrets of the Dow Industrials (http://www.wsj.com/articles/secrets-of-the-dow-jones-industrials-1462759211)
- Stock Funds Rose in Month (http://www.wsj.com/articles/stock-funds-rose-in-april-1462759204)
- Malkiel Scoffs at 'Smart Beta' (http://www.wsj.com/articles/burton-malkiel-is-still-an-indexing-fan-but-a-smart-beta-skeptic-1462759220)

"Colleges can view 'excess' retirement contributions as discretionary income, especially when assessing eligibility for their own scholarships, throwing a wrench in your plans to qualify for more aid," Ms. Foss says.

Ms. Schoenberger is a writer in New York. She can be reached at reports@wsj.com.

Corrections & Amplifications

Coverdell educational-savings accounts allow a change of beneficiary under Internal Revenue Service rules. An earlier version of this article incorrectly said they don't. Also, calculations for college financial aid count a Coverdell, whether owned by a dependent student or parent-owned, at up to 5.64% of the amount in the account; the article incorrectly said Coverdells are counted at 20%. Meanwhile, Coverdells can be set up so that control transfers to the student beneficiary at age 18. The article incorrectly said Coverdells always become the child's property at 18. (May 12, 2016)