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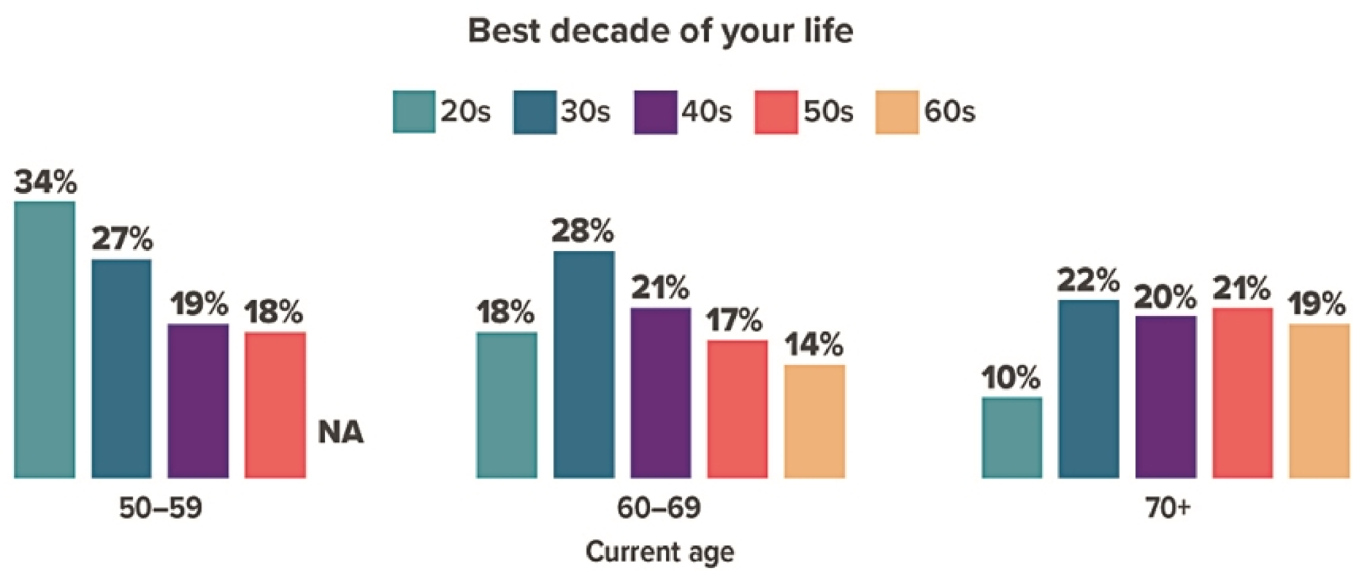
Happy Now but Happier When?

Despite the difficulties of aging, 86% of adults age 50 and older say they are happy, though only 21% say they are very happy, while 65% say they are pretty happy. It's probably not surprising that those who are in excellent or very good health are much more likely to say they are very happy.

Although a large majority of older adults are happy with their current prospects, about two-thirds say their best decade came before age 50.



Source: AARP, 2024 (Percentages do not add up to 100% due to skipped and "don't know" responses and some respondents choosing decades older than 60s.)

Versatile 529 Plans Can Help with More than Just College

529 plans were originally created in 1996 as a tax-advantaged way to save for college. Over the past several years, Congress has expanded the ways 529 plan funds can be used, making them a more flexible and versatile savings vehicle.

College, plus other education expenses

A 529 savings plan can be instrumental in building a college fund — its original purpose. Funds contributed to a 529 savings plan accumulate tax-deferred and earnings are tax-free if the funds are used to pay qualified education expenses, which now include:

- College expenses: the full cost of tuition, fees, books, and equipment (including computers) and, for students attending at least half time, housing and food costs at any college in the U.S. or abroad accredited by the U.S. Department of Education
- Apprenticeships programs: the full cost of fees, books, and equipment for programs registered with the U.S. Department of Labor
- K-12 tuition expenses: up to $10,000 per year

If 529 funds are used to pay a non-qualified education expense, the earnings portion of any withdrawal is subject to ordinary income tax and a 10% penalty.

Estate planning tool

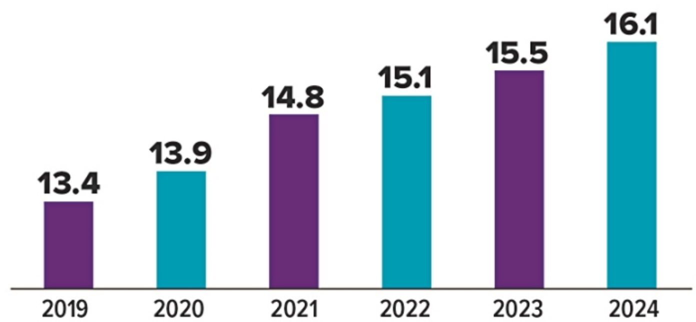
529 plans offer grandparents an opportunity to save for a grandchild's education in a way that accomplishes estate planning goals, while still allowing grandparents access to those funds if needed.

Specifically, due to an accelerated gifting feature unique to 529 plans, grandparents (or other relatives) can contribute a lump sum to a 529 plan of up to five times the annual gift tax exclusion and avoid gift tax by making an election on their tax return to spread the gift equally over five years. In 2025, the gift tax exclusion is $19,000, so grandparents could gift up to $190,000 to a 529 plan for their grandchild ($19,000 x 5 years x 2 grandparents) and avoid gift tax. These funds are *not* considered part of the grandparents' estate for federal estate tax purposes (unless one or both grandparents die in the five-year period, in which case special allocation rules apply). And if a grandparent is also the account owner of the 529 plan (529 plan rules allow only one account owner), then the grandparent will retain control of the 529 plan funds (even though the funds are not considered part of the estate) and can access them for health-care needs, an emergency, or any other reason (but the earnings portion of any non-qualified withdrawal will be subject to ordinary income tax and a 10% penalty).

Student loan repayment

Nearly 43 million borrowers have student loans, and the average loan balance is approximately $38,000.[1] To help families who might have leftover 529 funds after college, Congress expanded the approved use of 529 plan funds in 2019 to include the repayment of qualified education loans up to $10,000 for the 529 beneficiary or a sibling of the beneficiary. This includes federal and private loans.

Number of 529 savings plan accounts, 2019–2024, in millions



Source: ISS Market Intelligence, 529 Market Highlights, 2019–2024

Retirement builder: Roth IRA rollover

As of 2024, 529 account owners can roll over up to $35,000 from a 529 plan to a Roth IRA for the same beneficiary. Any rollover is subject to annual Roth IRA contribution limits, so $35,000 can't be rolled over all at once. For example, in 2025, the Roth IRA contribution limit is $7,000 (for people under age 50) or 100% of annual earned income, whichever is less, so that is the maximum amount that can be rolled over in 2025.

There are a couple of other caveats. For the rollover to be tax- and penalty-free, the 529 plan must have been open for at least 15 years. And contributions to a 529 account made within five years of the rollover date can't be rolled over — only contributions outside the five-year window can be rolled over.

Participation in a 529 plan generally involves fees and expenses, and there is the risk that the investments may lose money or not perform well enough to cover college costs as anticipated. The tax implications of a 529 plan can vary significantly from state to state. Most states offering their own 529 plans may provide advantages and benefits exclusively for their residents and taxpayers, which may include financial aid, scholarship funds, and protection from creditors. Before investing in a 529 plan, consider the investment objectives, risks, charges, and expenses, which are available in the issuer's official statement and should be read carefully. The official disclosure statements and applicable prospectuses contain this and other information about the investment options, underlying investments, and investment company and can be obtained from your financial professional.

1) educationdata.org, 2024

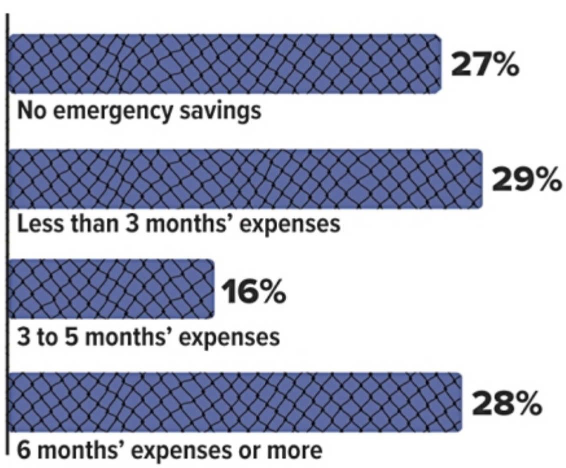
Financial Safety Nets: Exploring Available Sources of Emergency Funds

In moments of unexpected financial turmoil, having access to emergency funds can be the difference between a minor inconvenience and a major life disruption. Whether you have a sudden medical bill, car repair, or job loss, knowing where to turn for emergency financial support is crucial. However, not everyone has access to a financial safety net — nearly 60% of U.S. adults are uncomfortable with their level of emergency savings.[1] Fortunately, there are options when it comes to exploring available sources of emergency funds.

Emergency savings account

A separate account dedicated solely to emergencies is the cornerstone of any financial plan and acts as the first line of defense in times of crisis. Generally, you'll want to have at least three to six months' worth of living expenses (e.g., mortgage, groceries, or car loan) in a readily accessible account. The actual amount, however, should be based on your particular circumstances, such as your job security, health, and income. In addition, review your emergency fund from time to time — either annually or when your personal or financial situation changes (e.g., a new baby or buying a home).

How Much Adults Have in Emergency Savings



Source: Bankrate survey, May 17–20, 2024

Credit cards and personal loans

While not ideal, credit cards can provide immediate access to funds in an emergency. They are particularly useful for covering short-term expenses that can be paid off quickly in order to avoid paying high interest rates. Cards that offer balance transfers with low introductory rates can also be used, as long as you are disciplined with your repayments in order to avoid incurring additional debt. Personal loans from banks, credit unions, or online lenders can also be a viable option for covering emergency expenses. These loans often come with fixed interest rates and structured repayment plans. However, loan eligibility and interest rates will vary, depending on the lender and your personal financial situation. And of course it takes time to obtain a loan.

HELOCs

For homeowners, a home equity line of credit (HELOC) is a revolving line of credit secured by the equity you've built in your home. Unlike a home equity loan, which provides a lump sum, a HELOC functions more like a credit card. You can borrow up to a predetermined credit limit and repay over time, with the ability to borrow again as needed during the draw period. This option usually offers lower interest rates and more flexibility compared to credit cards or personal loans. However, there are some drawbacks to using a HELOC. Most HELOCs have variable interest rates, which means payments can increase if interest rates rise. In addition, since a HELOC is secured by your home, you could face foreclosure if you can't repay it.

Retirement accounts

When faced with an unexpected expense, another possible source of emergency funds is a retirement account, such as a 401(k) or IRA. Although most withdrawals prior to age 59½ are subject to income tax and a 10% penalty tax, you may be able to take penalty-free early distributions for specific emergencies. These include disability, extraordinary unreimbursed medical expenses, disaster recovery, up to $1,000 per year for general emergencies, and other situations. Ordinary income taxes and certain restrictions apply.

In addition, many 401(k) plans allow participants to take out loans. Typically, you can borrow up to 50% of your account balance or $50,000, whichever is less. The loans generally must be repaid within five years unless used for a first-time home purchase. You may also be able to take a hardship withdrawal in certain circumstances. Hardship withdrawals may be subject to the 10% early withdrawal penalty, as well as ordinary income tax. Check with your plan or IRA administrator to see what options are available to you.

Finally, keep in mind that contributions to a Roth IRA can be withdrawn at any time without taxes or penalties, since they are made with after-tax dollars. Nonqualified withdrawals of earnings, on the other hand, are subject to ordinary income taxes and the 10% early withdrawal penalty. Qualified Roth IRA withdrawals are those made after five years and the account owner reaches age 59½, dies, or becomes disabled.

1) Bankrate's 2024 Annual Emergency Savings Report

A Backup Plan for Your Paycheck

Your ability to earn a paycheck may be your most valuable asset. In a 2024 survey, 48% of Americans without disability insurance said their household would have to use personal savings to pay daily expenses in the event of a disability, and 26% said they would have to tap retirement savings.[1]

Social Security offers some disability protection, but only one out of three applications is approved, and it typically takes almost eight months for an initial decision and seven more for an appeal.[2] The average monthly Social Security Disability Insurance payment of $1,581 would not meet the needs of most families.[3]

Unfortunately, the odds of a disability are higher than you may think. The Social Security Administration projects that almost one out of four 20-year-old workers will experience a disability before they reach their full Social Security retirement age of 67.[4]

Portable individual coverage

If you're concerned about the potential effect of losing your paycheck due to sickness or injury, you might consider an individual disability income insurance policy, which could replace a portion of your income up to policy limits. Your employer may offer long-term disability coverage, but group plans typically don't replace as large a percentage of income as an individual plan could, and benefits from employer-paid plans are taxable to the employee if the premiums were paid by the employer.

An individual disability income insurance policy will stay in force regardless of your employment situation as long as you pay the premiums. If you have employer coverage, those benefits would generally be paid first, and your individual policy would pay any benefits that are higher than the employer coverage. Benefits may be paid for a specified number of years or until you reach retirement age. If you pay the premiums yourself with after-tax dollars, benefits are usually free of income tax.

Unlike group policies, individual policies can generally be customized to meet your specific needs. There are a variety of optional riders available at additional cost that provide the potential for higher benefits and/or for benefits to be paid under a broader range of circumstances.

Disability premiums are typically based on your age, gender, occupation, and the amount of potential lost income you are trying to protect, as well as the specifics of the policy and any additional riders. A complete statement of coverage, including exclusions, exceptions, and limitations, is found only in the policy. Carriers have the discretion to raise their rates and remove their products from the marketplace.

1) LIMRA, May 2, 2024

2) Center on Budget and Policy Priorities, August 6, 2024

3) Social Security Administration, January 2025

4) Social Security Administration, August 2024

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