



## DC College Savings Plan

# Now is the Time to Save for College

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Saving for a child's education is one of the most important goals a parent can have. Research has shown that individuals with college degrees typically earn substantially more than those that have not continued their education after high school. And a college education can provide access to a host of career possibilities. But saving enough for four years of college can seem like a daunting task, especially with the rising cost of higher education. Investing in a 529 College Savings Plan is a great way to save for a child's education. Explore some of the benefits of a 529 plan, below.

### **BENEFIT FROM THE POWER OF COMPOUND INTEREST**

Investing in a college savings plan allows you to realize the benefits of compound interest. When you contribute to a plan, you hope to earn a return on your investment. The amount that you earn is then reinvested and also earns a return, which in turn is then reinvested. For example, if you start with an initial investment of \$5,000 which earns a 6% rate of return, at the end of one year, you would have \$5,300, all of which would then be invested in the second year to earn a rate of return, a process which continues until the funds are withdrawn. Even if you never contribute another dollar, at the end of 10 years, at an annual 6% rate of return and with all earnings reinvested, the original \$5,000 would be worth almost \$9,000. At the same 6% rate of return annually, after 18 years that same \$5,000 would have grown to \$14,271, almost three times the original investment. Bear in mind that this is a hypothetical example which assumes an annual 6% rate of return. No investment can guarantee a profit.

The picture becomes even more dramatic if you make regular contributions in addition to your initial investment. Assume regular monthly contributions of \$50 per month (\$600 per year) also earning an annual rate of return of 6%. At the end of 10 years, the initial investment, plus contributions, could be worth \$17,337

and after 18 years, a substantial \$33,927—close to seven times the original investment.

The bottom line is, the earlier you start saving—and the more you are able to save—the more you can leverage the power of compounding over time to reach your education investment goal. An early start and regular contributions can really help your savings accumulate.

### **TAKE ADVANTAGE OF TAX-FREE INVESTING**

Tax-free earnings can also help you reach your education savings goals. Why is that? Normally, earnings on investments are taxable. However, to assist families in saving for higher education, if you use a 529 college savings plan, your money grows free of federal and state/district income taxes. This can have a significant effect on your earnings over time. For instance, take the previous example, where an investor made an initial investment of \$5,000 and regular monthly contributions of \$50. If one assumes a 28% annual tax rate, with earnings taxed on an annual basis and no interim withdrawals, the results change radically. After ten years, the initial investment and regular contributions could be worth only \$15,259, over \$2,000 less than on a tax-free basis. After 18 years, the \$5,000 investment plus contributions could only be worth \$27,237, approximately \$6,700 less than if the money had been invested on a tax-free basis.

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## Now is the Time to Save for College *(continued)*

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In addition to your money growing federal and state/district income tax free, withdrawals from 529 plans are exempt from income taxes when used for qualified higher education expenses such as tuition, room and board, and textbooks.

### LOWERING THE AVERAGE COST OF YOUR INVESTMENT

Contributing equal amounts on a regular basis may also help lower the average cost of your investment. By doing this, when prices are low, you are able to purchase more shares of a fund, and, when prices are high, you purchase fewer shares. This is called “dollar

cost averaging”, and helps to lower the overall average cost per share of your investment. To give a simplistic example, if an investor contributes \$600 a year, and in year one, the price is \$15/share, you would be able to buy 40 shares. If the price in year two is \$25/share, your \$600 contribution will buy 24 shares. At this point, you own 64 shares and have contributed \$1,200, an average price of only \$18.75.

And, D.C. taxpayers can deduct up to \$4,000 in DC College Savings Plan contributions from their federal adjusted gross income each year on their D.C. income tax return (up to \$8,000 for married couples filing jointly if both own accounts.)\*

**To learn more about the DC College Savings Plan, and help determine if a 529 college savings plan is appropriate for you, go to [www.dccollegesavings.com](http://www.dccollegesavings.com) or call us at **202.529.PLAN****

\*Note that rollovers from another qualified tuition program are not considered contributions eligible for the D.C. tax deduction

**For more information on the DC College Savings Plan, please go to [DCCollegeSavings.com](http://DCCollegeSavings.com), call 202.529.PLAN (800.541.1524 for Telecommunications Device for the Deaf) or contact your financial advisor. An investor should consider the objectives, risks, charges, and expenses of an investment carefully before investing. The District of Columbia College Savings Trust Program Disclosure Booklet contains this and other information. Read it carefully before you invest or send money. An investor should also consider, before investing, whether the investor’s or designated beneficiary’s home state offers any state tax or other benefits that are only available to residents of that state. An investment in another state’s 529 college savings plan may not offer comparable benefits.**

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