College Funding for Today’s Families

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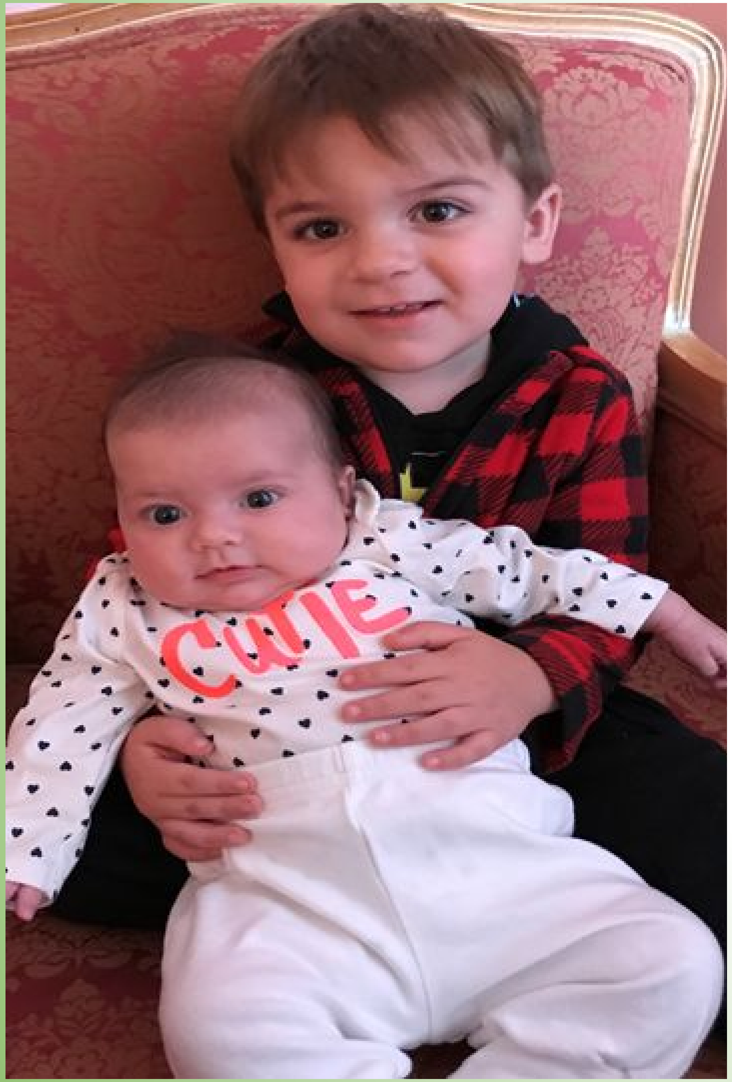
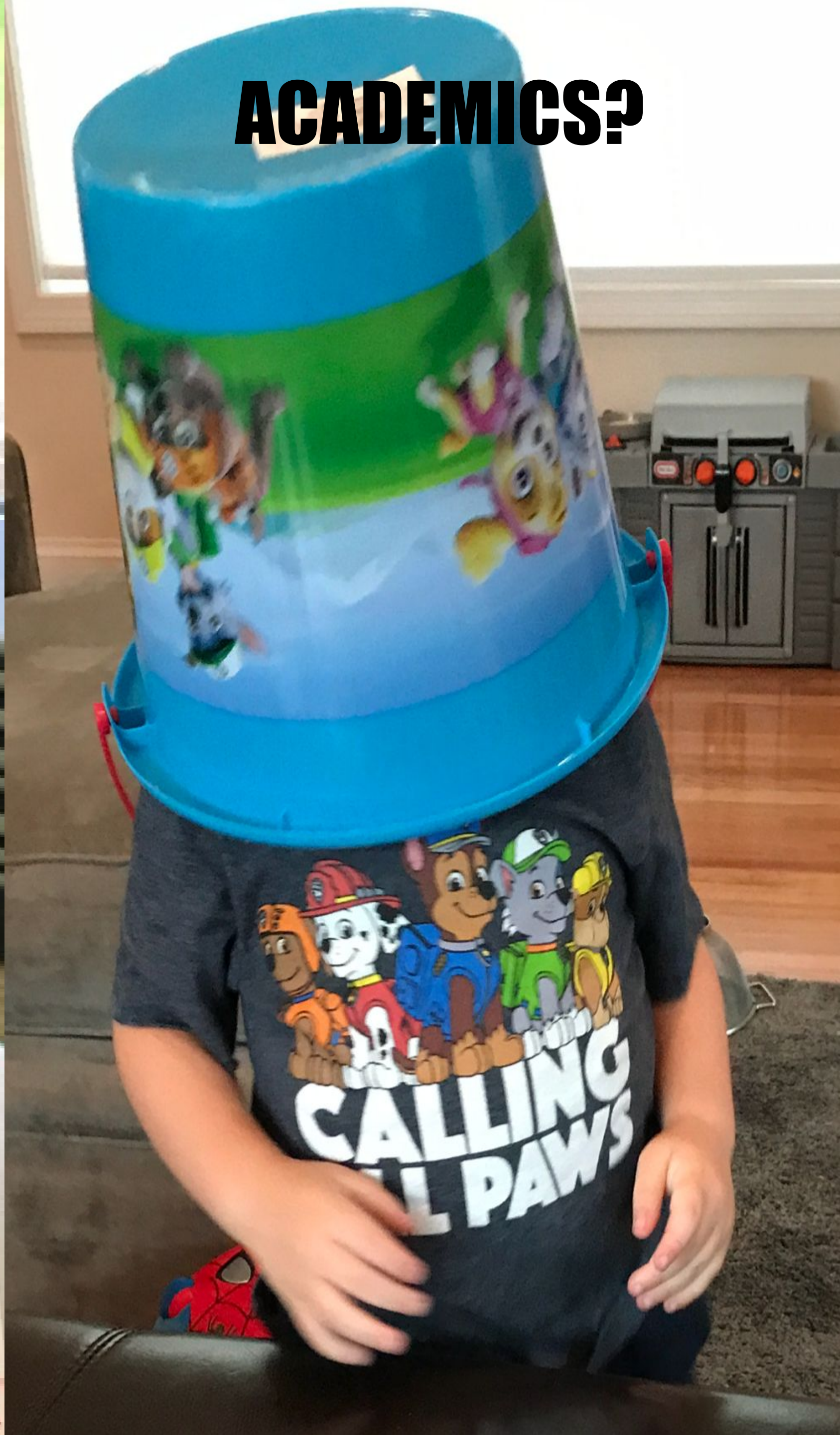


SCHOLARSHIPS???

Please!!!!


ATHLETIC?

SPECIAL TALENTS?

ACADEMICS?
CALLING

It Starts with a Conversation

- As parents, what are your preferences? In other words...
- How do you view college planning?
- Do you want to pay for some or all of your children’s education?
- Public or private school?
- Undergrad AND grad school?
- Will there be any gifting from grandparents?
- Do you want to “save” for college or “invest” for college?

<u>Retirement Planning</u>... But This Is A College Planning Presentation

- **Do the <u>2</u> have anything to do with one another?**
- **How do we know how much to allot to one <u>or</u> the other?**
- **Figuring out what's meaningful & doable**

VS

<u>You CAN'T go back in time and finance retirement but you CAN finance college!!!</u>

So What Are My Options?

- 529
- UGMA/UTMA
- Coverdell Education Savings Account
- Alternative Strategies

Benefits of a Section 529 Plan

- Contributions can be made to any state plan
- Contributions are considered completed gifts for gift tax purposes, even if the donor is the Responsible Party.
- 529 Plan gifts qualify for the gift tax annual exclusion.
- You may gift up to 5 years of exclusions in advance.
- You may name yourself as the Responsible Party.
- Gifts leave your estate, but don't leave your control.
- You may name a successor Responsible Party and then change your mind.
- Appreciation is income tax-free if used to fund the beneficiary's education.
- You may switch beneficiaries at will to another family member.
- Possible state income tax savings on contributions for state residents.

Limitations of a Section 529 Plan

- Limited investment options, especially as college age approaches.
- Plan benefits, costs and options vary state-by-state.
- Subject to **Market** risk (a pre-paid tuition plan would better protect against this risk but may limit the choices of where to attend school).
- Subject to **Mortality** Risk (risk that contributor dies too early).
- Subject to **Health Risk** (risk that the contributor becomes disabled too soon and can no longer contribute).
- Owned by the parents and therefore are included as parental assets for purposes of determining qualification for financial aid.

Gifts to an UGMA / UTMA (Custodial) Account

Benefits to Understand

- Easy and inexpensive to set up
- Available at almost any financial institution
- Need not be used solely for "education"
- Shifts appreciation and income to younger family members

Issues To Consider

- Child gets unfettered access to the funds at age 18 or age 21 (age 25 in some states)
- Beneficiary cannot be changed
- Considered the child's asset when calculating the Expected Family Contribution (EFC)
- Investment income and gains may be subject to the "Kiddie Tax"

Coverdell Education Savings Accounts

Benefits to Understand

- Easy to set up
- Contributions are completed gifts that qualify for the annual gift tax exclusion
- Ability to change the designated beneficiary
- Qualified education expenses include elementary and secondary expenses
- Tax deferred growth
- Distributions for qualified education expenses are income tax-free
- Assets are removed from the parent's estate
- Assets are considered parental asset for purposes of financial aid
- Able to change beneficiary to another member of beneficiary's family

Coverdell Education Savings Accounts

Coverdell Education Savings Accounts

Issues To Consider

- Contributions limited to $2,000 annually per child
- AGI limits apply to contributions
- Designated beneficiary must be under age 18 for a valid contribution
- Distributions not used for qualified education expenses are subject to income tax and a 10% penalty (no penalty if due to death or disability)
- In general, any unused assets transfer to the beneficiary at age 30

Alternative Funding Strategies

- PLI
- HELOC
- Personal Savings & Investments

Funding College Savings: Benefits To Capture

- Tax Benefits (Consult Your Personal Legal and Tax Advisor)
  - Example: You may want future growth & withdrawals to be income tax favored.
- Financial Benefits
  - Example: You may want a competitive rate of return, or
  - Example: You may want more options than just selecting between portfolios A, B or C.
- Planning Benefits
  - Example: You may want the flexibility to use the funds for needs other than for education without incurring a tax penalty.
- Risk Mitigation
  - Example: Mortality Risk = You may want the plan to be self-completing upon your death.

Funding College Savings: Risks To Mitigate

- Market Risk
  - Risk that contributions do not produce an adequate rate of return.
  - Risk that your principal is reduced due to market forces.
- Mortality Risk
  - Risk that death occurs before you've saved enough.
- Tax Risk (Consult Your Personal Legal and Tax Advisor)
  - Risk that distributions will be subject to ordinary income tax.
- Health Risk
  - Risk that disability or severe illness diverts funds away from college savings goal.

Lessons Learned

- When it comes to saving for education, there's no one right answer.
- When you implement a strategy, it's important to consider all of your goals and concerns and the benefits and risks associated with the alternatives you are considering.
- Often times one strategy can achieve multiple goals.

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