YOUR BEST PATH
FINANCIAL PLANNING

May 2019 Client/Prospect Letter

Topics for this month:

Saving for College – 529 Plans and Beyond

No kids? Click to skip ahead to Market update.

We all want what is best for our children. At an early age, we try to teach them to eat healthy foods, we place them in the best preschools we can afford, we encourage them in grade school and high school, and we cheer them on when they excel in extracurricular activities, and when they try their best.

Put another way; we want our children to succeed in all aspects of life.

As our kids wind their way through high school, most of us want them to attend college. For some, it's not just about going to a university but being accepted by and graduating from the "right one." Unlike when we were growing up, the pressure today is enormous, although, if we are honest, self-imposed. And I mean you, the parents.

Pay to play

Are you familiar with the college admissions scandal? I know I was kind of shocked reading about it.

Succumbing to pressure to get their kids into the best universities, dozens of people were charged with circumventing established protocols (in other words, committing fraud) and allegedly worked multiple angles and paid millions of dollars to secure entrance into elite universities for their children (in other words conspiracy).

It's not that these folks didn't have the resources for tuition, textbooks, and living arrangements. They did. But they tried to do it on the cheap in pursuit of securing their child's future. A future to which their children are not entitled. A future which belongs to kids who have earned it.

My own two cents: prosecutors should punish the perpetrators of this crime to the fullest extent of the law, which is not very severe for "white-collar" crime – but that's another discussion.

Exploding costs

The cost of college has soared. Since 1985, the annual tuition, fees, room and board rates charged for full-time undergraduate students at a four-year *public* university increased from $3,859 to $19,189, according to the National Center for Education Statistics [https://bit.ly/1SCIIF5]. For private schools over the same period: $9,228 to $39,529. Today in 2019, college is just about *five times more* expensive than in 1985. Many elite schools charge even more with NYU one of the most pricey at $71,790 per year! [https://www.collegefactual.com/colleges/new-york-university/paying-for-college/]

The increase in costs is both astounding and sobering. No wonder so many kids today graduate with both a degree and debt.

Of course, these are averages and costs will vary, but they paint an unsettling picture.

Fortunately, the bill isn't due all at once. Fortunately, there are vehicles that can help ease the burden. And fortunately, the magic of compounding can significantly ease the worries that come with saving for college.

The 529 college savings plan

One such vehicle is the 529 college savings plan. What is a 529 plan? 529 plans are sponsored by the state or a state agency. It allows someone to save for college (or kindergarten–12th grade). Before we jump in, let me say that this is a high-level overview. If you have any questions about college savings or a 529 plan for your son or daughter, please feel free to reach out to me. We can help get you started and maximize the long-term benefits.

Benefits

1. **Pay for qualified educational expenses**: One can use the savings for tuition, books, and education-related expenses at accredited universities, vocational-technical schools, and eligible foreign institutions. Funds accumulated in the plan may go to public, private, and religious schools.

2. **Tax advantages:** While there is no deduction when cash is deposited into a 529 plan, any earnings are not subject to federal taxes, and qualified withdrawals are exempt from taxes. Some states also offer full or partial deductions or credits for 529 contributions.

3. **Maintain control of the money.** Unlike a UGMA account, in which the child will eventually take control of the accumulated funds, you remain in control of the plan. You make sure it goes toward its intended use.

4. **Set it and forget it.** Most 529 plans have a "set it and forget it" feature. You make the automated investment, and an outside company manages your investment. In my state of VA you can invest in a "target date" fund of funds which will automatically adjust the asset allocation as your child gets closer to starting college.

5. **Just about anyone can open a 529 plan**. Contributions are not limited by the donor's income. Earn $50,000 per year, and you can set up a 529. Earn $50 million per year, and you also qualify.

6. **There is no maximum annual contribution.** Unlike with retirement accounts, the IRS doesn't specify an annual maximum contribution. There are no age limits on contributions. Total contributions range from $235,000-$520,000 depending on the state. While most account owners won't run afoul of the rules, there are some specifics we can discuss if you are considering a large, one-time contribution.

7. **529 plans complement FAFSA**. A 529 plan helps maximize your ability to pay for college without jeopardizing financial aid. The 529 account is the parent's asset, much as if you had saved the money under your own name. However, with the 529, you'll receive tax benefits that wouldn't accrue if it were in a taxable account under the parent's name.

Drawbacks

1. **The plan does not guarantee it will cover the full cost of a four-year college education.** However, the earlier you get started, the better. We can provide you with various scenarios, i.e., contribution levels, compounding, inflation, etc.

2. **Investment options may be limited**. You are not in complete control of the plan. Therefore, it is crucial to invest in a plan that offers flexibility and low-cost funds.

   Ask yourself, do you want an age-based portfolio–one that begins with a more aggressive mixture of stocks versus bonds and gradually shifts to a more conservative mix as your child approaches 18? Or will you choose a static asset allocation? If so, you'll want to rebalance regularly.

   Here in Virginia our plan offers the age-based option. And you don't have to be a VA resident to participate.

3. **You don't need the savings in your 529 after all.** What if Johnny received a full ride to college? It's a pleasant problem to have, but still, let's consider the alternatives.

   Possible options:

   - You can withdraw up to the amount of the scholarship without paying the 10% penalty.

- You can hold the money for graduate school.
- You could change the beneficiary to another qualifying family member without a tax or penalty.
- You may name yourself as the beneficiary if you intend to take classes.
- Or, you could consider keeping the account active for a grandchild.

If you use the money for noneducational purposes, you will likely incur taxes and a 10% penalty on the earnings.

4. **You must time your contributions and withdrawals carefully**. Contributions must be made by December 31, though states that offer tax advantages may extend the deadline to April 15. And, make sure that any withdrawals coincide with qualified expenses in that year.

As I mentioned earlier, this is a high-level overview. It's designed to shed light on one vehicle that can be used to save for education. It's also intended to ease what seems like an onerous burden for many–saving for college.

Of course, a one size fits all approach is rarely the best. If you have questions about college savings or 529 plans, we're just a phone call away. If you have specific tax questions, please consult with your tax advisor.

Green grass and high tides – Market Update

It has been a strong start to 2019. The broad-based S&P 500 Index has advanced nearly 18% in just four short months, and the tech-heavy NASDAQ Composite has surpassed the 20% mark.

More good news: The S&P 500 Index and the NASDAQ have both topped previous highs (Yahoo Finance). It's quite a snapback from the gloomy outlook and oversold conditions we saw in late December.

Some of this year's rebound is simply timing. After a steep sell-off last year, the major market indexes bottomed in late December. Hence, much of the rally has occurred since the end of December. But let's not discount the fundamentals.

Remember, if you are working and accumulating assets (saving), all this volatility is good. But don't get too excited about rising stock prices, that means the money you are investing now is buying at a higher price than last month.

What has been powering the rally?

1. Recession fears have faded. Put another way, recessions crush profits and severely dampen the outlook for profits. Earnings growth isn't particularly rapid right now, but Q1 reports are topping a low hurdle (Refinitiv).

2. After slowing through much of 2018, the global economy appears to be stabilizing.

3. The Federal Reserve is on hold, and interest rates remain low. Last year, the 10-year Treasury yield peaked above 3% (Bloomberg). Today, it's hovering near 2.5%. Given expectations of modest economic growth, options to earn a higher return in safe investments are limited, reducing competition for stocks.

4. Investors remain optimistic that U.S. and Chinese trade negotiators will come to terms on an ever-elusive trade agreement. Here's a headline in the April 29 *Wall Street Journal*: "[Treasury Secretary] Mnuchin Suggests China Trade Talks Could Wrap Up by End of Next Week" (or about May 10). It's encouraging.

Table 1: Key Index Returns

	MTD%	YTD %	3-year* %
Dow Jones Industrial Average	2.6	14.0	14.4
NASDAQ Composite	4.7	22.0	19.2
S&P 500 Index	3.9	17.5	12.6
Russell 2000 Index	3.3	18.0	12.1
MSCI World ex-USA**	2.5	12.3	4.3
MSCI Emerging Markets**	2.0	11.8	8.7
Bloomberg Barclays US Aggregate Bond TR	Unch.	3.0	1.9

Source: Wall Street Journal, MSCI.com, Morningstar, MarketWatch
MTD: returns: Mar 29, 2019-Apr 30, 2019
YTD returns: Dec 31, 2018-Apr 30, 2019
*Annualized
**in US dollars

With key indexes at or near highs, let me pose a question to you. How were you feeling when shares were getting beat up in December? Before you respond, there isn't a right or wrong answer.

Did you look past the headlines, recognizing the financial plan was the best path to long-term success? Did the plan enforce discipline, preventing you from making ill-timed investment decisions? Were you comfortable with adhering to the long-term roadmap?

If the answer is "Yes," your tolerance for risk is incorporated into your approach.

Or, did you get that queasy, unsettling feeling in your gut? Were you rattled by the swiftness of the decline? Did you experience sleepless nights?

If you answered "Yes," let's talk. Diversification helps manage risk, but it doesn't eliminate risk. It's possible that we may need to make some adjustments to your portfolio that may ease the downside when volatility strikes again.

As always, I'm honored and humbled that my clients have allowed me to serve as their financial advisor.

All the Best!

Gordon Achtermann

Your Best Path Financial Planning

Gordon Achtermann - Principal

YourBestPathFP.com

T: 703-573-7325

Gordon@YourBestPathFP.com