



The Gift of Education Can Never Be Taken Away

With vaccine rates climbing and COVID-19 cases declining, there is renewed hope that our lives will soon return to normal. The impact of the pandemic, however, will be felt for many years to come.

Institutions of higher education, in particular, have been faced with numerous challenges, including a forced shift to virtual learning and decreased student enrollment numbers. Although we will see many transitions and changes within higher learning in the years to come, education will continue to be an important part of our cultural legacy.

As parents and grandparents, the prospect of saving for education can seem daunting but it does not have to be. Let's begin by looking at some statistics.

- **Pandemic Impact:** In a recent survey, 44% of students say the pandemic has impacted their ability to pay for college.

- **Student Loan Debt:** Currently, student loan debt is the second-highest consumer debt category - second only to mortgage debt, and higher than debt for both credit cards and auto loans. There are 43.2 million student borrowers that owe an average of \$39,351 each, for a total of \$1.71 trillion .

- **Average Cost:** The average cost of college in the United States is \$35,720 per student, per year. The cost has tripled in 20 years, with an annual growth rate of 6.8%. Taking into account student loan interest and loss of income, the ultimate cost of a bachelor's degree may exceed \$400,000.

There are so many ways to begin saving today for our children or even grandchildren. Let's explore some of the most popular savings vehicles:

With a 529 account, the parent or grandparent who opens the account maintains control of it. This flexibility allows the account owner to decide when to disburse the proceeds and even the option to change the beneficiary. 529 funds can be used for a variety of educational paths, for supplies, and for technology needs.

529 Investment Accounts - Flexibility, Control, Tax Advantages

One popular option is opening a 529 Investment Account, which provides tax savings and flexibility in how the funds can be used. Most people think that 529 Investment Accounts can only be used for college education. That is not the case. 529 accounts can also be used for any Kindergarten through Grade 12 expenses (up to \$10,000 each year), and for apprentice programs, including trade schools and vocational programs. So, if your child grows up and realizes that he or she does not want to attend traditional college but would instead prefer to go to a qualified on-site training program for a career in manufacturing, health care, or another field, you can use the 529 fund to pay for the expenses and still receive the tax benefits.

The primary benefit of 529 plans is tax deferred earnings that can also be withdrawn tax-free. In some cases, families may also be eligible for a state income tax deduction or credit for 529 plan contributions, depending on where they live.

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Gifts and 529 Plans

The 2017 Tax Cuts and Jobs Act (TCJA) changed tax reform laws. Parents or grandparents can contribute

a lump sum and use a special rule that permits a gift-tax-free contribution of up to five times the annual gift tax amount, or \$75,000 total. If two parents or grandparents contribute, they can put \$150,000 total into a 529 Plan. While there is no federal tax deduction for these contributions, the earnings grow tax deferred and are tax-free if used to pay for qualified higher education costs. This option can also reduce estate taxes.

Custodial 529 Plan Accounts

Custodial 529 accounts combine the features of custodial accounts and 529 college savings plans. With these accounts, when the student takes ownership of the account, they must use the funds for college expenses or else they will pay a penalty. This type of account counts as a parental asset even after the student takes ownership. The annual contribution limit for this type of account is the federal annual

gifting limit in effect for the year that a contribution is made to the account. In 2020, the limit was \$15,000, for example.

UTMA/UGMA Accounts - More Investment Options, Less Control

Through the Uniform Transfers to Minors Act (UTMA), an adult can transfer assets to a minor by opening a custodial account. These types of accounts are managed by an adult until the minor reaches a certain age, usually 18 or 21. At that point, the beneficiary can use the funds for any purpose. UGMA/UTMA accounts are considered an asset owned by the child.

Our unconditional love, time and education are powerful gifts we can share with our children and grandchildren. I often think that the greatest asset we can impart upon the next generation is education as this is something that can never be taken away or lost. ☺



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