

## **529 College Savings Plans are an Ideal Choice for Grandparents**

Once their own retirement income stream is secure, many grandparents find it rewarding to contribute to the funding of their grandchildren's education. Yet, whereas nobody worries about what becomes of the \$50 tucked inside a birthday card, gifting much larger sums often gives grandparents reason to pause. What happens if, come graduation, Johnny cashes out his savings account and buys a car to drive cross-country rather than heading off to college?

The 529 college savings plan is tailor-made for grandparents who want to help with college expenses, but want to ensure their contributions go toward a B.A. or a B.S., not an MG. Named after Section 529 of the IRS code, 529s are investment plans sponsored by individual states and managed by an independent investment firm or state agency. Created in 1996, these college savings vehicles offer tax-deferred growth and distributions used to pay for qualified expenses such as tuition, room and board, mandatory fees, books, and required computers that are tax-free. And, thanks to the Pension Protection Act of 2006 that eliminated the 2010 sunset provision for tax-free withdrawals, 529s seem destined to gain in popularity.

As great as tax-deferred growth and tax-free qualified withdrawals are, the major 529 attraction for grandparents may be that 529 assets remain under grandparent control. With 529s, the account owner, not the beneficiary, directs the use of distributions. As the 529 account owner, you can choose to change the beneficiary to another family member at any time. You can even take the money back at any time, for any reason. However, unqualified distributions are subject to income tax and a 10% penalty on the earnings.

Sound too good to be true? It gets better. In addition to being a problem-solving college savings vehicle, the 529 plan doubles as an estate planning tool. That's because although assets in the 529 are in your name, the value of the 529 account is removed from your taxable estate. No other investment vehicle allows you to retain full control over the account, including the right to take the money back at any time, while reducing the value of your estate.

Currently, you can make up to \$12,000 in 529 gifts each year to any grandchild (\$24,000 if your spouse gifts, too) and not be subject to the gift tax. What's more, if your attorney or financial adviser has recommended that you move significant money quickly out of your estate, 529 plans offer an additional estate planning advantage, often referred to as accelerated gifting. Section 529 offers an election on Form 709 that allows the donor to treat a contribution of more than the \$12,000 annual exclusion as occurring ratably over five years for gift tax purposes.

If you spread your contributions ratably over five years (20% per year) for gift-tax purposes, you can frontload up to \$60,000 per beneficiary (or \$120,000 for a

married couple) into a 529 plan without generating a taxable gift, assuming you make no other gifts to that beneficiary during the five calendar-year period. There is one catch. If you make a five-year election but die before the first day of the fifth calendar year, contributions allocated to the years after your death are included in your taxable estate. Note, too, if you take the money back, the assets return to your taxable estate.

The 529's flexibility as a college savings and estate planning tool mean that it's here to stay. Your only remaining worry might be that you stash too much cash in the plan. Remember, however, if the grandchild you first name as the beneficiary doesn't drain the plan, you can change the beneficiary to a younger grandchild. And in a really progressive plan provision, you can name yourself as the new beneficiary.

Now, haven't you always wanted to take an art history class?

Note: This article is for informational purposes only. Consult your financial advisor, tax advisor or attorney to determine what is appropriate for your situation as the dollar figures mentioned above may have changed.