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Saving for College with 529 Education Plans

In less than twenty years, the cost of an average four-year college education is expected to exceed $115,000 for public schooling and $250,000 for private schooling according to a recent poll by *College Trends*. These projections are certainly startling for most parents as they ask a common question: "How will we be able to afford a college education for our children?"

Fortunately, federal legislation has created a tax-friendly form of saving for college, commonly referred to as the 529 Plan. Every state has enacted legislation to authorize the use of 529 Plan assets in their colleges. Individuals generally may deposit annually $13,000 (up to $65,000 at one time to cover five years of gifts) into a special type of investment for the education of the beneficiary, typically one's child or grandchild (although the beneficiary could be any person). Most state 529 Plans allow an individual to contribute, in the aggregate, over $200,000 per beneficiary, though consideration should be given to the federal estate and gift tax ramifications of such contributions.

529 Plans offer a number of distinct advantages over traditional forms of college savings, such as Uniform Transfers to Minors Act ("UTMA") accounts and irrevocable trusts. With UTMA accounts, when a beneficiary reaches age 21, he or she would be able to withdraw all of the funds in the account to use as he or she wishes. The possible use of custodial assets for undesirable purposes may be addressed with the implementation of an irrevocable trust. Irrevocable trusts provide the opportunity to protect assets until a later age and can permit distributions for other purposes, such as health and support needs. With these flexibilities, though, come addition expenses in the form of legal and accounting expenses. The funds in either UTMA accounts or irrevocable trusts are subject to ongoing income tax.

By contrast, contributions to a 529 Plan grow free of federal income tax for as long as the funds remain in the Plan. Historically, these Plans were often criticized due to limited investment options that resulted in mediocre performance, thus negating the advantage of tax-free growth.

Over time, though, with increased popularity and the ability for individuals to invest funds in Plans of any state (regardless of residence or desired school location), 529 Plan investment options have become much more varied, resulting in worthwhile investment returns.

A unique feature of the 529 Plan is that the account owner remains in control of the account. The owner may change the beneficiary from one person to another and may determine when withdrawals are taken and for what purpose, although such changes may be subject to tax consequences. In addition, the account owner may withdraw funds at any time for any purpose whatsoever; however, the earnings portion of such a withdrawal would be subject to income tax and an additional 10% penalty.

With the owner having control of the account while funded, one should consider naming a successor owner in the event of death or disability. A successor owner could include a revocable trust, a spouse or a trusted person capable of carrying out the owner's intentions, namely, ensuring that the Plan assets are invested appropriately and used for the beneficiary's higher education needs. In every case, the selection of a successor owner should be coordinated with the account owner's personal estate planning to ensure that his or her wishes are met.

Joshua T. Keleske, P.L. serves families in the Tampa Bay area with their estate planning, estate and trust administration, and business planning needs. If you have questions regarding how we can be of assistance to you and your family, please contact us at anytime at 813-254-0044. We are happy to answer your questions and arrange for an appointment to speak with you.

Please also visit *www.trustedcounselors.com* to learn more about Joshua T. Keleske, P.L.

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