# Education Funding Strategies

Incorporating College Funding
Into Your Estate Plan

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**When planning for a loved one's education, it might make sense to combine college saving with estate planning. In this article, we examine three tax-advantaged saving options that, in addition to helping you save for educational expenses, could also further your estate planning goals.**

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## 529 Plans

**These plans come in two types: The prepaid tuition plan and the college savings plan.**

A prepaid tuition plan involves making payments today to guarantee that tuition (or a specific portion of tuition) will be covered in the future. Prepaid tuition plans may be offered by states or private educational institutions. State plans are usually accepted at any college or university in that state's system.

Regardless of whether you choose a state or private plan, it may be possible to transfer your prepayment from one school to another. Doing so may have additional costs; however, because some plans charge a penalty equal to a percentage of the tuition's value. In addition, even if the plan doesn't charge for the change, the school of choice may be more costly than the school for which you've prepaid, leaving a funding shortfall.

A 529 college savings plan is often a better option. Contributions go into a tax-deferred account that is generally invested in mutual funds (though investment choices are limited to those offered by the plan). Withdrawals are free from federal income tax when used for qualified higher education expenses at eligible institutions, as defined in IRC Sec. 529. **Examples of qualified costs include not only tuition and fees, but also:**

- Books, supplies and equipment required for attendance.
- Room and board, subject to limits, for a student enrolled on at least a half-time basis.
- In the case of a beneficiary with special needs, expenses for special needs services incurred in connection with enrollment or attendance.

The list of eligible institutions includes virtually every accredited college and university in the United States, as well as many foreign institutions.

State tax treatment varies, and some states offer income tax incentives for contributing to their plans.

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## 529s and Estate Planning

529 plans offer significant estate planning opportunities. For example, gifts to 529 plans are eligible for the annual gift tax exclusion of $15,000 (in 2021) per beneficiary.1 This means that you may avoid the gift tax liability without having to use up any of your lifetime gift tax exemption. It also means that you may avoid any generation-skipping transfer (GST) tax liability that may otherwise be incurred when, for example, a grandchild is the plan beneficiary, without using up any of your GST tax exemption.

529 plans also allow flexibility in funding, as contributions can be made either periodically or as a lump sum. For example, you can front-load five years' worth of annual exclusion gifts ($75,000) in one year. Married couples splitting gifts can double this amount to $150,000 per beneficiary.2 However, if you die within five years of the gift, a portion of the upfront gift will come back into your estate.

## Direct Payment of Tuition

One of the best ways to combine estate planning and college funding is to pay tuition on behalf of the student. Gifts of tuition paid directly to the institution are exempt from gift tax without counting as annual exclusion gifts or using any of your lifetime gift tax exemption. They also are exempt from GST tax without using any of your GST tax exemption.

## Do Your Homework

You can use education funding tools to also achieve estate planning goals. But choosing the combination that is right for you requires careful study. Your wealth advisor is available to answer your questions and create an educational funding strategy that meets your specific goals.

## Financial Aid and 529 plans

How is financial aid affected by the various college savings plans and by other gifts? **There are two aspects of financial aid:**

1. Federal assistance and
2. Assistance generated through the institution itself. Institution-based aid calculations can vary greatly.

With federal assistance, student-owned assets are generally included at a higher percentage than a parent's assets. There are exceptions. For example, a student-owned 529 plan is included at the parent's percentage. But if a grandparent owns the 529 plan, the plan is excluded and is counted as student income.

An additional consideration is that any withdrawals from a grandparent-owned 529 plan will count as income to the student when filing for financial aid. However, if the 529 plan account is used in the final year of college, the income rule would not generally apply.

## New Provisions

As a result of the SECURE Act and recent changes to 529s, you can now use a 529 to pay up to $10,000 for private, public or religious elementary, middle and high school tuition.[3] You can also now withdraw up to $10,000 tax free for each child to pay off student loans, for a total of $30,000.[3]

**For more information visit: marinerwealthadvisors.com**

1 "FAQs on Gift Taxes"
2 "Why You Should Front-load Your 529"
3 "529 Savings Plans and Private School Tuition"