



# College Funding:

## How Can Grandparents Help?

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## How to fund a college education

**Q** – I want to set up a trust fund for my beautiful new granddaughter’s college education. Any suggestions?

*Proud Grandma*

**A** – Dear Proud,

Congratulations! I’m glad to hear that you are planning for the future – especially in light of those expensive college costs.

For grandparents of modest means, start by funding a Coverdell IRA (sometimes referred to as an educational IRA or a “Kiddie” IRA). You can set up an account for your new grandbaby and contribute up to \$2,000 annually. In 18 years – assuming an 8% return on investment – the account would grow to \$74,900. It won’t pay for four years at Harvard, but it’s a nice start. The news is that the growth in the account is not taxed if used for educational expenses - and you control it. Keep in mind that the \$2,000 limit is the maximum that can be contributed per child - so make sure that the equally proud grandma from the other side of the family doesn’t also set one up. A wide variety of financial institutions offer Coverdell accounts. Check out <http://www.irs.gov/publications/p970/ch07.html> for more information and limitations.

If you are hoping to fund those years at Harvard you may want to consider a 529 Plan. Similar to a Coverdell, growth in the account is not taxed if used for education. The great news is that you can make larger contributions to the fund. However, your choice of investment options is more limited. The State of Arizona has chosen three providers - Ivy Funds, Fidelity and College Savings Bank. For more information, check out [www.AZ529.gov](http://www.AZ529.gov).

Another option is an account set up under the Uniform Transfer to Minors Act (UTMA). Accumulated funds are not limited to funding a college education. However, annual earnings in these accounts are taxed if they exceed the \$950 limit for unearned income. Additionally the funds are available for your granddaughter to spend however she likes when she reaches majority – in AZ the age is 21. If she wants to use her *college* fund to buy a sports car (or worse), she has a legal right to do so. If you want to legally ensure that she doesn’t spend the money foolishly when she turns 21, you can contribute the money to a trust.

A trust fund can be a great way to transfer assets from one generation to another. Additionally you can set up conditions for distribution of the funds – strings attached. However a formal trust needs to be drafted by an attorney. After the trust is set up, there are ongoing expenses that may include legal, accounting and trustee fees. Additionally trust tax rates are higher than individual rates.

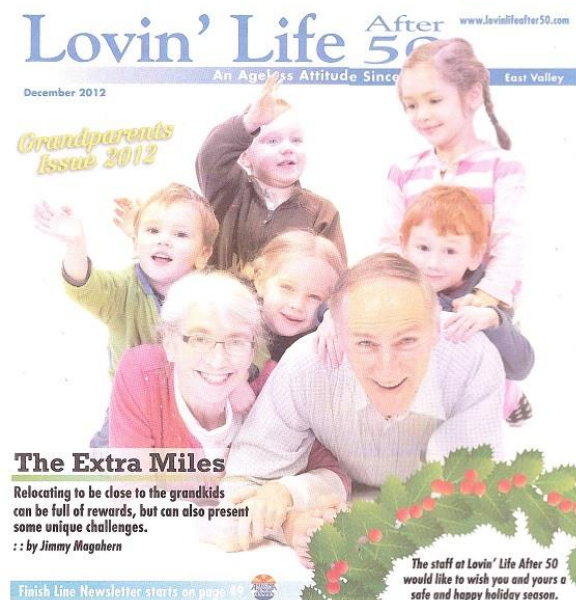


All of the above plans are potentially subject to the gift tax – if you contribute more than \$14,000 per year (For 2013 - In the past it was \$10,000). If you are married, both you and your spouse can gift \$14,000 to each grandchild – for a total gift of \$28,000.

If you are establishing one of these accounts for an infant, remember that she has a long time before she starts college. You may be a more conservative investor, but this college fund should be invested more aggressively (probably in a good stock mutual fund) in order to grow. As she nears college age, you can switch to more conservative investments.

Another option to consider – particularly if your grandchild is currently in college – is to write a check to the educational institution. Writing a check to the school is **NOT** subject to the gift tax limitations, the assets are **NOT** counted as *child* or *parent* assets for purposes of financial aid, and you can be assured that the money is used **ONLY** for college.

Enjoy your new grandbaby. Be sure and give her extra hugs and kisses for me – and have fun shopping for those cute little dresses.



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Teresa has been helping families and retirees reach their financial, tax, retirement planning, and estate planning goals for over 25 years. She is legally bound to uphold the highest level of fiduciary standards when providing investment advice to her clients.

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