GRANDMA GAVE ME SOMETHING AWESOME

How to Give College Savings As Birthday Gifts and Get Happy Hugs in Response

BY JEANNIE BURLOWSKI

Bonus article created to accompany Jeannie Burlowski's book ***LAUNCH: How to Get Your Kids Through College Debt-Free and Into Jobs They Love Afterward* (available at JeannieBurlowski.com/LAUNCH)

Someone you love is going to college.

Maybe this year, maybe 12 years or more from now.

If you're a grandparent, close family friend, or other relative of a child between the ages of 0 and 24, you may be in the habit of regularly buying gifts for him or her. Clothing, books, toys – whatever you think will surprise and delight in the moment.
You buy these gifts, wrap them, present them to the child to open, and (we hope) hear a heartfelt, "Thank you!" in response.

This is wonderful, and it's how friends and relatives have done gift-giving for generations. But what if *you* could do something for this child that's *more creative?*

What if *you* could take the same exact amount of money you were going to spend on birthday and holiday gifts this year and next, and set that money aside for something much more long-lasting and meaningful?

What if you could do this while still getting to see this child open a box, while still getting a tight, teary hug afterward?

This article explains exactly how grandparents, aunts, uncles, godparents, and beloved friends and family members can give long-lasting, meaningful college savings gifts – *without* paying out one penny extra beyond what you are right now and *without* giving up the gift-opening ritual that's so much a part of family tradition.

The strategies I explain below will work whether the child you love hasn't yet started kindergarten, is already in middle school or high school, is currently packing to go away to college – or is already *in college.*

Start with this:

Write a letter, put the letter in a box, wrap the box.

Imagine this scenario.

The child opens a wrapped box from you, and inside he finds an envelope that says: "Bradley, read this later. Love, Grandma and Grandpa."

In this special letter you tell him how much you love him, what admirable good character and potential you see in him, how proud you are of what he's accomplished the previous year, how excited you are to see him have a successful future, and that you have made a contribution to a fund where you're saving for his future education.

You don't have to tell anyone *the amount* you've put into this college savings fund. Any amount, even $10.00, is generous.

If you like to write, you may also include in this letter stories from your own life, along with wise advice for this boy's future.

Letters like these become increasingly precious to kids as the years go by – even if you've only invested a small amount in the college savings account each year.

On pages 23 -25 of my book ***LAUNCH: How to Get Your Kids Through College Debt-Free and Into Jobs They Love Afterward,*** I strongly urge parents to carefully save letters like these (along with photos of you and the child together), and then eventually use an online service to create a scrapbook out of these letters and photos. When this child is an adult, this scrapbook will mean more to him than a hundred sweaters and plastic toys.

What if your savings for this kid's college ends up being over $100.00, and you want to invest it?

As this special college savings fund gets larger, you may want to *invest* it so that it can grow and increase in value while you're sleeping.

You shouldn't do this until you've had a financial advising professional help you with your own retirement planning of course – but if you've got that taken care of, here's what to consider as you invest this college savings money.

Invest in such a way that you *protect the child's future financial aid eligibility.*

You don't want the government and other institutions to one day look at this beloved child and say: "Well – we're not giving *you* any money to help pay for your college! You're swimming in money that your grandma/uncle/godparents gave you!"

To protect this child's future financial aid eligibility (and to protect *your* financial interests as well), I suggest that you talk to a certified financial planner about opening a 529 college savings plan *in your name* with the child you want to help named as the beneficiary.

It's important that you put this college savings plan *in your name*, or you might accidentally reduce this child's eligibility to receive government aid to help pay for college in the future.

You will put after-tax money into this 529 plan, but it will grow tax free as long as you eventually use it to help pay educational expenses for this child, or for another of the child's family members.

(You can also get your money back out of this fund if you need it, as I'll explain below.)

Then, wait.

Consider waiting until January 1st of the child's sophomore year of college to pull this money out and start using it to pay his or her educational expenses. Why? Because it's at that point that extra income can no longer hurt this child's financial aid eligibility.

If you use this strategy you'll be able to save the maximum amount for this child's future education, pay the least amount of tax on this investment as it grows, and, most importantly, not decrease the child's future eligibility for government financial aid in any way. A great deal!

And if you end up in a happy situation where there's eventually *more money* in this grandchild's 529 savings plan than he needs for his college and college-related expenses?

No problem.

You can't pull more money out of a kid's 529 plan than he or she can actually use for college expenses, but – you *can* easily use the leftover cash to pay for the college of a different family member, if this grandchild's brother, sister, cousin, child, or parent would like to go to college. Or, if you prefer, you can get the extra cash back and use it to buy golf clubs or cruise vacations for yourself. (Keep reading, and I'll explain how to get the 529 money back and use it for yourself.)

Frequently Asked Questions (FAQ):

1. "What if I save up money in a 529 plan, and then I die before my grandson ever goes to college?"

You might be thinking, “The money I’ve saved for this child will be sitting there in an account in my name. How can I *make sure* this money will be used to pay his college bills?”

Here’s the answer. When you set up a 529 plan, you’ll be allowed to name a “successor.” A successor is a person who easily and automatically becomes owner of the 529 plan after your death, without the account having to go through probate first.

You’ll want to choose a successor who you believe to be a trustworthy person who will carry out your wishes, but if you can, try to avoid choosing a successor who still has college-bound children who’ve not yet reached January 1st of their sophomore year of college. Why? Because this 529 plan will count as an asset when your successor’s children apply for financial aid for college – possibly decreasing their future eligibility for college financial aid.

If your successor’s children are past January 1st of their sophomore year of college, though, no need to worry! Those children are past the point where extra assets could hurt their financial aid eligibility.

2. “What if my grandson decides not to go to four-year college, but instead wants to go to community college, beauty school, or trade school? Or – what if he wants to go on to grad school, law school, medical school, or seminary? Can my 529 savings plan money be used to pay for those programs as well?”

Yes. Your 529 savings money can be used to pay for community college, beauty school, or trade school. Your 529 money can also be used to pay for grad school, law school, medical school, seminary, and other professional graduate school programs.

The rule is that 529 money may be used to pay for "any college, university, vocational school, or postsecondary institution eligible to participate in federal student aid programs administered by the U.S. Department of Education." This even includes the Golf Academy of America, the Refrigeration School in Phoenix, Arizona, and the commercial diving program at the CDA Technical Institute in Jacksonville, Florida!

3. "What if my grandson decides not to go to college? Or what if he's so irresponsible as a young adult that I decide I'd rather not help him?"

That's okay! You (or your successor) can easily change the beneficiary of your 529 plan. Just change the beneficiary name to someone else in your family. Would your grandson's brother, sister, cousin, child, or parent like to go to college? You can even put your *own* name down as the beneficiary and use the 529 money to go to college yourself!

4. "What if I one day need this 529 plan money to pay unexpected medical expenses? Can I shut down a 529 plan that I own and get my money back out of it?"

Yes. In most cases you'll just need to pay ordinary state and federal income tax on the money you're pulling out (*not* capital gains tax like you might have to pay on other investments), plus a 10 percent penalty on the earnings you gained while your money was in the 529 plan.

Do this, and you can get your 529 money back at any time and spend it *any way you want to.*

This is one of the great things about a 529 plan. If you give other types of gifts (such as family partnerships, trusts, cash transfers, and UGMA and UTMA accounts), you can't ever get the money back. They're irrevocable. The 529 plan, however, allows you great flexibility to change your mind and take the money back out of the fund if necessary.

5. "Hmmmm… if I'm allowed to revoke a 529 plan that I own and get my money back out of it, it seems as though that 529 plan would count as one of my assets. If I die while owning a 529 plan, would my estate have to pay tax on it?"

No. Your estate will not be required to pay tax on the 529 plans you own when you die. Money you put into a 529 plan is treated as a "completed gift" from you to the person you named as a beneficiary, so even though you have the power to take the money back at any time, it's not considered part of your taxable estate. There's no other gifting strategy that allows this kind of estate planning benefit with this level of flexibility and control.

6. "But my granddaughter is only a college freshman, and she needs the money right now. I don't want to wait until she's a college sophomore to start helping her. What options do I have?"

I have three answers to this question.

1) You *could* ask the child's parents whether the child is actually receiving any need-based financial aid or not. If the child is not, then give as much as you want to! You have no worries about hurting her future financial aid eligibility.

(If the child's parents aren't sure whether the child is receiving need-based financial aid or not, they can call the child's college financial aid office and ask.)

2) In some cases like this, parents will carefully fill out the FAFSA form on October 1st of the child's senior year of high school, and then use the government assistance provided by the FAFSA to take out the lowest interest loans possible to cover the first 1.5 years of

college. Then, as soon as January 1st of the sophomore year of college arrives, you can use your 529 money to pay those student loans off immediately.

3) If you *are* going to pay some educational expenses before January 1st of the child's sophomore year of college, call the college's bursar's office during the summer before college starts and ask to make a payment *directly to the child's college account*. This offers the child the most financial aid protection possible.

7. "We have fourteen grandchildren and would like to avoid a lot of paperwork. Can we set up just one 529 plan for all of them?"

It might seem like a little less work to do it this way, but you don't actually save any paperwork by having one 529 plan for multiple grandchildren.

For a number of good reasons, financial planners and accountants highly recommend that you set up a separate 529 plan for each child you want to help. A qualified financial planner, accountant, or attorney can explain the reasoning behind this to you.

To keep costs down, ask your financial planner, accountant, or attorney whether the 529 plan you choose will waive its annual fee if you sign up for the automatic contribution plan, or if you keep a certain balance in each 529 account.

8. "I've been giving money to my granddaughter by putting funds into a custodial account (UTMA) in her name. Is this a bad idea?"

I so appreciate your generosity, and I'm sure your granddaughter does too, but there are potential problems with this plan. The biggest issue is that this large asset will be counted against your granddaughter when she goes to apply for financial aid to pay for college.

If a financial advisor has told you that your granddaughter's UTMA account is large enough to be making her subject to the "kiddie tax," or if your grandchild is just about to fill out a FAFSA financial aid application (which will happen for the first time on or about October 1st of her senior year of high school), I strongly suggest that you talk to a financial advisor about the possibility of converting that UTMA account to a 529 plan. There will be some complexity involved in this conversion (depending on how much money is involved and at what point in time it's happening), so be sure to seek out the guidance of a qualified financial professional who can walk you through the process.

9. "What if I pay over $14,000 of my grandson's college tuition in one year? Could I be hit with a gift tax for doing that?"

Nope; don't worry about that. According to the IRS, tuition you pay for someone else—no matter how large the amount—does *not count as a gift* for tax purposes. The IRS calls this an "educational exclusion." Isn't this wonderful news?

If you're thinking of putting a very *large* amount of cash into a 529 savings plan for one or more of your grandchildren, talk to your financial advisor about the special 529 plan feature known as "accelerated gifting." Accelerated gifting allows you to contribute a total of up to $70,000 (individual) or $140,000 (married filing jointly) to a single beneficiary in the first year, but *treat it* as if it were made evenly over a five-year period. How does this help you? Well, it allows you to take fullest advantage of tax deferral, which can result in significantly more money accumulating in the plan over time.

If you're considering accelerated giving, be sure to run the idea by your financial advisor first. He or she will help you consider accelerated giving within the context of your overall financial picture, *and* make sure that you as a donor make the required special election on IRS Form 709 when you file your federal tax return for the year the contribution is made.

Please note that the accelerated gifting limits I've described above apply to the *total gifts* you give to this child in a five-year period, including those gifts made outside the 529 savings plan. Your financial advisor will help you figure it all out.

10. "I don't want to do accelerated gifting, but I do want to put more than $14,000 into one 529 plan in one year. Will this cause me any tax problems?"

If you're planning to give anyone gifts totaling over $14,000 in one year, please see a certified financial planner, accountant, or attorney before doing so. You probably won't have a problem at all unless you plan to give away large gifts totaling more than $5,250,000.00 during your lifetime, but check with a professional just to make sure.

Finally, here's a personal note to you from me.

Here's a personal note from me to all the loving aunts, uncles, grandparents, and godparents reading this article. Most adults, at some level, long to leave a legacy of some sort to those they love in the next generation. There are few greater gifts you can give a child – few more powerful legacies you can leave behind – than to help a loved one in the quest to graduate from college debt-free.

If you have the means, perhaps consider quietly making a monthly contribution to a 529 plan in your own name, with the child you love named as beneficiary. The child will still get the maximum amount of financial aid to help pay for college, the money in the 529 plan will grow tax free, you can get the money back out of the 529 plan if you ever need it, and naming a successor to own the 529 plan after you die will mean your estate will never have to pay probate tax on it. It's a great way to give a meaningful gift of lifelong value to a child you dearly love.

For further help getting kids you love through college debt-free, do what professional financial advisors such as Alix Magner (Morgan Stanley), Tim Larson (Thrivent), Mike Branch (Focus Financial), and Jonathan Stough (RBC Wealth Management) recommend over and over again. Get my book ***LAUNCH: How to Get Your Kids Through College Debt-Free and Into Jobs They Love Afterward*** as soon as possible after your oldest grandchild completes 6th grade. (***LAUNCH*** is available on Amazon.com.) Read the book yourself if possible, and then gift a copy of it to your grandchildren's parents. In the front of the book, before you wrap it, write an inscription where you encourage the parents to *read just chapters 1 and 2 only*. If your grandchild's parents will do this, they'll feel on fire and inspired about debt-free college, and they'll know exactly how to use the rest of the book in the easiest possible way. ***LAUNCH*** is designed so that busy parents read just one chapter every few months while their kids are growing up through middle school and high school. This allows them to know every viable strategy for getting kids through college debt-free – at exactly the right time to implement it.

I hope you've benefited from this free resource. It's my goal to help as many families as possible get their kids through college debt-free. If you found this article helpful, please copy the link to it and share it with others on Facebook, Twitter, and LinkedIn.

*Because every family financial situation is different, show this article to your own certified financial planner, accountant, or attorney, and ask him or her whether the ideas in this article make sense in your personal individual financial situation.