A Great Opportunity For Parents, Grandparents

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One of the best pieces of legislation signed by **President George Bush** in 2006 was the pension protection act. Included in the bill, without a lot of notice, was a provision that made the 529 Educational Savings plan permanent. That provision was strongly supported by both Republicans and Democrats.

What properties of 529 plans make it, in almost all circumstances, the very best way to save for college? First, once money is put in a 529, any growth of that money comes out at the end tax free, if spent for college tuition, room and board and many other college expenses. Second, the permitted 529 annual contribution is much larger than the maximum $2,000 annual Coverdell educational saving plan contribution, which is set to expire in 2010.

With a 529, a married couple can contribute up to $24,000 a year to each child without incurring a gift tax. That same couple could also chose to contribute up to $120,000 for each child by making five years of contributions all in one year. The contributed money is excluded from the contributor's estate for estate-tax purposes. A five-year contribution all at once is prorated for estate-tax purposes. The contribution would not trigger a gift tax and would be completely out of the contributor's estate at the end of five years.

Another important feature of the 529 is that, unlike other gifts, the contributions are not irreversible and the principal paid into a 529 can be taken back without penalties by the contributor. That is a very important feature.

Many grandparents place a high priority goal on helping to fund their grandchildren's college expenses. Some have hesitated to do this because they think they may need emergency access to these funds for their own retirement needs in the future. Many find it reassuring to know that they can get their principal payments back from 529 contributions they made penalty-free should their financial circumstances change for the worse.

Another feature of the 529 is that control and ownership of the plan stays with the contributor and not the beneficiary. The ownership feature, if retained by a grandparent, is very unlikely to disqualify a grandchild from receiving needs-based grants of other college financial assistance.

This is completely opposite of "Uniform Gift to Minors Act" (UGMA) contributions. Those assets, along with the parents ownership of the 529 and other assets, may count against the grandchild receiving financial aid. Also the beneficiary cannot ride off on a motorcycle into the sunset or do whatever they want as in when they automatically take control of the UGMA funds at age 18. The owner of the 529 retains control and can change the beneficiary of the account and can even pass it on to the next family generation.

529 plans can easily be purchased and set up on your own. You can direct-purchase a plan from any of the 50 states. There does not appear to be any benefit in buying these plans from a salesperson. If purchased from a salesperson, the commissions will put a drag on asset growth of the 529. The October 2007 issue of *Money Magazine* points out that direct-purchase Maine 529 plans have 50 percent less expenses than the identical broker-sold plans. And yet, 10 times the amount of direct-purchase Maine 529s are broker sold. The Utah 529 is an excellent low cost direct-purchase plan. (800) 418-2551.

You can get a lot of information about each state's 529 by going to www.savingsforcollege.com.

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