STIFEL

Funding Education – Where to Begin

Are you considering funding some, if not all, of your child's or grandchild's future education costs and unsure where to start? With the stress of funding your retirement, planning to fund future education costs can easily be pushed off and forgotten about. However, incorporating these costs in your monthly or yearly budget does not have to be as overwhelming as it may seem.

When it comes to saving, there's no better time to begin than the present. Treating your contributions as a monthly expense will make it easier for budgeting purposes. The first step to saving for these rising education costs is to open an account. There are several types of accounts that can be used to pay for education, including 529 Plans, UTMA/UGMA (Uniform Transfers to Minors Act)/UGMA (Uniform Gifts to Minors Act) accounts, and Coverdell Education Savings Accounts (ESAs).

529 Plans can be used for qualified education expenses. Qualified expenses include K-12 tuition and higher education expenses. There are no income restrictions for contributing to a 529 Plan. Qualified withdrawals are free from federal taxes, and the account owner has complete control, including the ability to transfer the account to another related beneficiary at any time. There are no age limits on when funds from a 529 Plan have to be withdrawn. If all of the funds are not used on the designated beneficiary, they can continue to trickle down to related beneficiaries for other future education expenses.

Investors should consider carefully the investment objectives, risks, and charges and expenses associated with a 529 Plan before investing or sending money. The official program offering statement, which includes information on municipal fund securities, is available from your Financial Advisor and should be read carefully before investing. The value of a 529 account may fluctuate, and there is no guarantee that any investment portfolio will achieve the stated goal. Your investment may be worth more or less than its original value.

UTMA accounts are custodial accounts that are to be used for the benefit of the minor. Earnings are subject to income or capital gains tax. Funds from an UTMA/UGMA account are more flexible, as they do not have to be used for education. The custodian on the account can use these funds to pay for expenses for the child; however, upon reaching legal age, the child will take ownership of the funds and can use them for any purpose.

Like a 529 Plan, an ESA can be used for not only college expenses but also for elementary and high school expenses. Contributions into the ESA grow tax-deferred until withdrawn. There are some limitations, however. Contributions are capped at $2,000 annually and are not tax deductible. You are restricted from contributing to a Coverdell ESA if your modified adjusted gross income is more than $110,000 (as a single filer) or $220,000 (for a joint filer). Also, the assets from an ESA must be used before the beneficiary turns 30 years of age.

Regardless of which investment vehicle, or combination of vehicles, you choose, consistent saving is crucial. Whether you have less than a year or more than a decade to plan for these future costs, even a small amount of saving each month can go a long way in helping fund your child's or grandchild's education. As the cost of education continues to rise, there's no greater time than the present to start planning for these future costs. Talk to your Stifel Financial Advisor about how you can get started today.

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