

# Invest in your grandchild's future

## Several options exist to help defray the cost of higher education

BY MEGHAN DIEMEL

As higher education costs skyrocket and financial aid becomes more difficult for students to obtain, many grandparents may have the desire to step in and help their grandchildren. But before you write a check, there are recommendations for proper ways to invest to ensure the security of your own financial livelihood.

Vice President of Investments at Stifel in Green Bay, John Wetli says he's seen an increase in grandparents who factor their grandchildren's educational needs in their own financial goals and wishes.

"Grandparents are often in the perfect position to help," he says. "They tend to have more money than their children, and they want to help their grandchildren. In fact, according to AARP, over 52 percent of grandparents are helping pay for college for their grandkids."

Todd Kreuser, owner of Kreuser Financial and Tax Service in Green Bay, states that there are many benefits for grandparents

who help grandchildren.

"The cost of a college education is usually the second or third highest expenditure – after buying a home and saving for retirement – parents have to make," says Kreuser. "By making a gift, grandparents can make a meaningful impact in helping their children and grandchildren financially, and have the fulfillment of seeing the gift be put to good use."

Kreuser adds that there are a few factors to bear in mind before a grandparent invests in a grandchild's higher education.

"We need to consider the age of the grandchildren, whether they're pre-college, or entering, or in college," he says. "If the grandchild is entering or in college, there are many considerations as to how the gift should be handled and the tax and financial aid ramifications of the gift."

There are two tax-preferred vehicles specifically designed for educational savings, adds Wetli, including the Coverdell Savings and the 529 college savings plans. While the Coverdell Savings plan can be used for expenses from kindergarten through twelfth grade, the 529 savings plan is specifically for higher education. Both allow for tax-free growth of investments and

*Paying for education doesn't have to be a hardship. It's easy to save when there's efficient planning.*



John Wetli



Todd Kreuser



tax-free withdrawals if used for qualified educational expenses.

“The 529 college savings plan is a state-sponsored savings plan with over \$180 billion in investment assets,” Wetli explains. “Each state has one, but you are not required to use your state’s plan. Many grandparents prefer the 529 college savings plan over the other option since it allows them to maintain ownership of the accounts while their grandchild is the beneficiary.”

As Kreuser explains, a \$3,000 Wisconsin tax deduction per year per grandchild is allowed for contributions made into Wisconsin’s 529 Plan.

“They can actually gift more but the deduction is capped at \$3,000,” he furthers. “Grandparents can actually gift and remove up to \$70,000 (\$140,000 jointly) or five years of gifting from their estate, gift-

tax free into a 529 plan if they want.”

As a general gift, a grandparent can give a child, gift-tax free, \$14,000 per grandparent or \$28,000 as a couple; this can be circumvented, says Kreuser, if the grandparent pays the college directly for tuition owed by the student.

Though the 529 plan and others like it are popular choices, there are always caveats. Any nonqualified withdrawals that are not used for the beneficiary’s qualified expenses are taxed and penalized in a 529 plan, explains Wetli. In addition, the account holder is limited to only one asset reallocation per year; however, you may be able to choose a new investment option for future contribution.

“Also, the value of a 529 College Savings account may fluctuate, and there is no guarantee that any investment

portfolio will achieve the stated goal,” he says. “Your investment may be worth more or less than its original value.”

Kreuser reminds seniors that gifts to education can also have severe negative consequences on financial aid eligibility for the grandchild.

“It is important to have an open and honest communication about the gift with the family (parent and grandchild) and for them to seek advice from a competent professional with a clear understanding of how the financial aid process works,” he recommends.

Paying for education doesn’t have to be a hardship with efficient planning, suggests Wetli.

“Grandparents are realizing one of the best gifts they can provide a child is assisting with their education,” he states. “An education can benefit a grandchild over the rest of their life.” ♦

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