May 2021

BLB&B Advisors, LLC
FINANCIAL GUIDANCE SINCE 1964

MONEY *notes*

What's your most pressing long-term financial concern? For most Americans, saving enough money for a comfortable retirement will likely top the list. Often, however, their #2 concern will be funding a child's or grandchild's education. It's not surprising when you consider that next to purchasing a house, education funding may be the single largest 'purchase' you make in your lifetime.

According to the latest 2020 College Board survey, an average 4-year private university degree (including tuition and fees, room and board, and allowances for books, supplies, transportation, and other personal expenses) costs $219,520. For an in-state public college degree, the average cost is $107,280.[1]

Even with financial aid and scholarships, many families incur considerable debt to fund higher education expenses. Today, there are more than 45 million Americans carrying nearly $1.6 trillion in student loan debt—with an average debt burden of $32,731 per person.[2] Unfortunately, this large and growing debt load shows no sign of abating. To the contrary, student loan debt is the fastest growing debt category in the U.S. Since 2019, and thanks to the temporary suspension of student loan repayments contained in the CARES Act, student loan debt is up 12%. *https://www.experian.com/blogs/ask-experian/state-of-student-loan-debt/*. As you can imagine, this massive student loan burden often has far-reaching consequences for families, individuals, and the U.S. economy including delaying marriage, having children, purchasing a home, saving for retirement, and starting a business.

In order to emerge from college or graduate school in strong financial shape, it is critically important for students and their families to carefully explore and evaluate higher education options and funding sources. In addition to scholarships, grants, and financial aid, there are also a variety of useful investment accounts specifically designed to encourage families to save more while their child is young thereby

[continued]

reducing the need to borrow so much for higher education expenses. These include:

- Prepaid tuition plans
- 529 plan accounts
- Coverdell education savings accounts
- Custodial accounts (i.e., UGMAs and UTMAs)

529 Plans—simplicity and flexibility

Of all your savings options, 529 plan accounts are typically the easiest way for most families to put money away to cover future college expenses. 529 plan accounts are:

- *Easy to set up*—anyone can open one with minimal paperwork;
- *Allow anyone (family and friends) to contribute*
- *Require low minimums*—accounts can usually be started with a very small initial deposit (just $10 to open a Pennsylvania 529 Investment Plan account);
- *Provide tax-deferred growth and tax-free withdrawals*—if savings are used for qualified educational expenses; and
- *Have no income or age limit*—on your ability to make contributions to an account.

For 2021, you can make annual 'after-tax' contributions of up to $15,000 ($30,000 for a married couple) to as many children or grandchildren as you want, without using your lifetime gift tax exemption or owing any federal gift taxes. You also have the option of making 5 years' worth of contributions all at once ($75,000/$150,000) and tax-free. Also, while each plan has its own maximum total contribution limit mandated by the IRS and state law, those limits tend to be extremely generous. The Pennsylvania 529 Investment Plan account allows total contributions for a single beneficiary up to $511,758.

In general, the money in your child's 529 plan account must be used for qualified higher-education expenses including tuition, fees, room and board, books, required supplies, and equipment. The Setting Every Community Up for Retirement Enhancement (SECURE) Act recently expanded this list to include student loan repayments.

Keystone Scholars Program

Many states offer incentive programs to encourage the opening of 529 plan accounts. In Pennsylvania, for example, the Keystone Scholars program invests $100 for each child born in PA after 12/31/18 who also has a PA 529 investment plan account. You can find out more about this unique savings incentive program for Pennsylvania visit *www.pa529.com/keystone*.

Added flexibility

Prior to 2018, the use of 529 plan funds was restricted to higher education costs only. Families who wanted a tax-deferred savings vehicle for primary and/or secondary education expenses had to rely on Coverdell Education Savings Accounts (ESAs) which limit annual contributions to just $2,000 and carry significant income limitations.

2018's *Tax Cuts and Jobs Act*, however, loosened 529 plan usage restrictions—allowing tax-free annual withdrawals of up to $10,000 to help cover qualified expenses for all grade levels at any accredited public, private, or religious institution. And the subsequent SECURE Act legislation further expanded 529 plan usage to cover the cost of apprenticeship programs.

Account owners also have the power to change 529 plan account beneficiaries at any time. This makes it considerably easier to redirect funds if a child opts to forego higher education or obtains a "full ride" to college. So long as the new beneficiary is a member of the original beneficiary's family (sibling, step-sibling, niece, nephew, child, etc.), there will be no tax consequences related to using these funds for another person's qualified educational expenses.

Why consider a larger gift?

A special provision in the IRS 529 plan rules allows you to make a single lump sum, 5-year tax-free gift of up to $75,000 ($150,000 for a married couple) to each child or grandchild.[3] For wealthy individuals and families, this can provide a tremendous opportunity to fund education costs—

[continued]

especially if you're behind on your savings goal and want to catch up.

In addition, considering the mounting national debt, soaring pandemic deficits propelled by multiple rounds of stimulus, and growing concerns that interest rates may soon edge higher, there's a great deal of uncertainty surrounding the potential for higher federal, state, and local tax rates in the not-too-distant future. The very generous $11.7 million individual lifetime exemption from federal estate and gift taxes is likely to be in the crosshairs and could be reduced. As a result, this may be an opportune time for parents and grandparents to consider gifting legacy assets to 529 plans while you still can and to remove these assets from your estate. As always, before doing so, please consult with your tax professional to ensure this makes the best sense for you and your family given your personal tax situation.

529 plans and student aid eligibility

While it's true that a 529 plan could potentially impact your child's ability to qualify for financial aid, careful planning can help preserve their eligibility.

If you own the account (with your child as named beneficiary), it's considered a parental asset. Therefore, only 5.64% (or less) of the account value would be included in the financial aid calculation—as long as the beneficiary qualifies as a 'dependent' student. If, on the other hand, your child is both the account owner and beneficiary, 20% of the account value will be counted towards your expected family contribution. Withdrawals from a 529 plan in one year, however, will not impact your child's eligibility for financial aid in the next calendar year.

One important tip for grandparents! Instead of setting up your own account to save for a grandchild, consider contributing to an account started by the child's parents. This will help prevent your gift from being classified as 'student income' in their financial aid eligibility calculations.

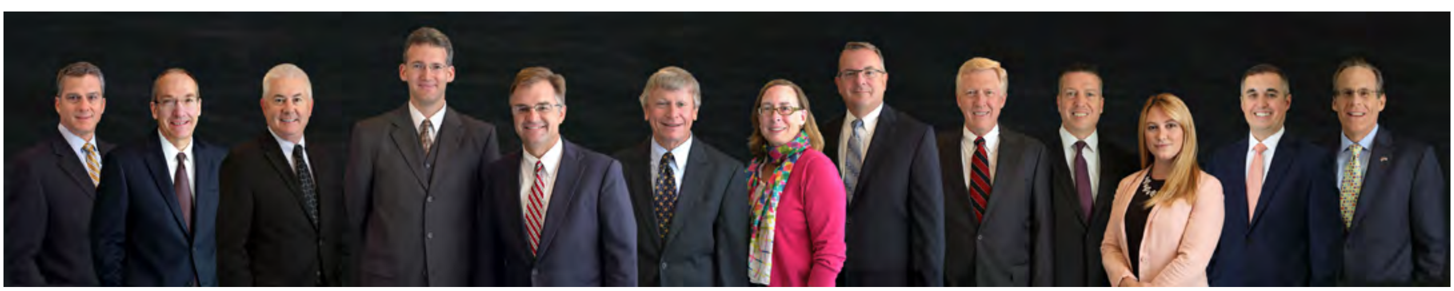
Let us help you plan

Obviously, the more you are able to save for higher education expenses, the better financially positioned your children and grandchildren will be when they graduate—able to start off on their own with little or no student loan debt. Of course, do not make the mistake of putting off saving for your own retirement in order to fund 529 plan savings. Finding the right balance is important. So too are the various planning and tax considerations you'll want both your BLBB advisor and your tax attorney to collaborate on—to help set the next generation up for success.

1 "Trends in College Pricing and Student Aid 2020," College Board, October 2020

2 "2020 Student Loan Debt Statistics," Forbes, February 2020

3 2020 IRS Instructions for Form 709



L to R: Robb Parlanti, Doug Huntley, Ed Barnes, Clif Haugen, John Lawton, John Armstrong, Laura Brewer, Dean Karrash, Bob Johnson, Brian Gallagher, Brianna Barnes March, Nick Bucci, Bob Flood

BLB&B Advisors, LLC
FINANCIAL GUIDANCE SINCE 1964

www.BLBB.com
215.643.9100

Mailing address
P.O. Box 1010, Montgomeryville, PA 18936

Street address
103 Montgomery Avenue, Montgomeryville, PA 18936