STIFEL

INVESTING

Planning for Your Child's Education

We all want the best for our children, from life's simple pleasures to the benefits of a college education. But in today's world, paying for college is anything but simple. In fact, putting children through college is one of the largest expenses most families will ever have to face.

Consider that a child entering college in the year 2034 will probably face college costs ranging from $197,000 for four years at a public university to $405,000 for a degree from a private institution.* Now consider that while your salary is rising, it may not stay in step with tuition inflation. Tuition increases at four-year colleges have averaged 4.7 percent for public colleges and 4.2 percent for private institutions for the past 10 years. If that trend continues, college costs will double in approximately 15 years.*

Only a generation ago a college degree was considered something of a luxury. Today, we consider it a necessity — generally, the higher your education, the higher your income and job security.** And tomorrow, a college education may be a requirement even for entry-level jobs in a technological and competitive society that demands highly educated and trained people.

That's why planning for your children's education today means not leaving it to chance tomorrow. And while the numbers may seem intimidating, there is some good news to consider.

The Coverdell Education Savings Account

For example, an Education Savings Account (ESA) makes it easier for you to save for your child's college expenses. This tax-advantaged savings account allows donors to contribute up to a combined total of $2,000 a year to an ESA for a child (parents, grandparents, other family members, or friends, etc.), provided the contributor is single with income up to $95,000 or married filing jointly with income of $190,000 or less. Partial contributions are allowed for single taxpayers with income between $95,000 and $110,000 and married taxpayers with income between $190,000 and $220,000. No contributions may be made after the beneficiary is 18 years of age.

Contributions to an ESA are not tax-deductible, but withdrawals are tax-free if used for qualified higher education expenses, such as tuition, room and board, and supplies. (Taxes and a 10% penalty will apply for non-qualified withdrawals.) If accumulated funds have not been used by the time the beneficiary reaches age 30, or a balance remains in an ESA after all education expenses have been paid, the funds can be rolled over to another eligible family member.

The 529 College Savings Plan

With a 529 College Savings Plan, assets grow tax-deferred, similar to a 401(k) plan or a Traditional IRA. In addition, distributions for qualified educational expenses are federal tax-free. Non-qualified withdrawals are taxable as ordinary income to the extent of earnings, and earnings are also subject to a 10 percent Federal income tax penalty. State tax treatment may differ. You should discuss your particular tax situation with your tax professional.

Individuals of all income levels can open a 529 College Savings Plan, and multiple plans may be opened for different beneficiaries. There are generally no age or time limit restrictions for the participant or the beneficiary. This allows grandparents or other relatives to contribute to the beneficiary's education without being penalized.

529 College Savings Plans can provide significant benefits in the area of estate planning as well. The plan allows an investor to contribute a lump sum of up to five times the annual gift exclusion ($14,000) in a single year, with no gift tax due on the transfer. This amount (up to $70,000 or $140,000 for married couples) may be contributed to as many 529 College Savings Plans as you desire, provided there is a separate beneficiary for each account and no other gifts are made to that beneficiary, either directly or through a College Savings Plan, for five years. Contributions are considered a completed gift and are removed from the donor's estate, provided the donor lives beyond the number of years for which the gifts were pre-funded.

With a 529 plan, the account owner retains complete control of the account, including control of distributions, the ability to cash out the plan and access funds, and the ability to change the beneficiary. An added benefit to a 529 College Savings Plan is the higher maximum contribution limit. This can be extremely beneficial to the student wishing to attend a more expensive school or who plans to continue their education with graduate or doctoral studies.

It is important to remember that the value of a college savings plan may fluctuate and that an investor's investment may be worth more or less than its original value.

Individuals interested in investing in a 529 College Savings Plan should consider carefully the investment objectives, risks, and charges and expenses associated before investing. The official program offering statement, which includes information on municipal fund securities, is available from your investment professional and should be read carefully before investing.

* Projected costs are based on the College Board Annual Survey of Colleges 2016-2017 and assume a 4.7% (public) and 4.2% (private) annual increase in published college costs. All costs include tuition, fees, room, and board. In-state tuition is assumed for public schools. This is a hypothetical illustration only.

** U.S. Census Bureau, Current Population Survey, 2013 Annual Social and Economic Supplement.

Reducing Your Taxes

Other tools to help you save for your child's college education include the Uniform Gifts to Minors Act (UGMA) and the Uniform Transfers to Minors Act (UTMA). This type of custodial account allows you to transfer assets to a custodian to hold for the benefit of a minor. Gifts made to a custodial account are irrevocable, but withdrawals made by the custodian for the benefit of the minor can occur as needed up to the age of majority.

Generally, investment earnings up to $1,050 in a custodial account are not taxed. For children under age 19, investment earnings between $1,051 and $2,100 are taxed at the child's rate, while earnings above $2,100 are taxed at the parents' top marginal rate (2017 figures). For children age 19 and older, the earnings are taxed at the child's rate. The assets in the account are distributed to the minor when he or she reaches the age of majority (18 or 21 years, depending upon the state).

Tax laws regarding gifts to accounts for minors may pose some challenges. You should consult with your tax advisor to determine the tax consequences of such a gift.

You may be eligible for other tax credits when funding a college education. For example, both the Hope Credit and Lifetime Learning Credit may provide non-refundable tax credits subject to certain qualifications and limitations. And you may qualify to deduct a portion of the interest paid on education debt. Taxpayers are allowed to claim Hope or Lifetime Learning Credits for the same year an ESA distribution occurs, provided they do not cover the same education expenses. You should consult with your tax advisor for complete information pertaining to your particular situation.

Planning for Tomorrow

Of course, the sooner you develop a sound investing plan, the better. I can help you create a disciplined, long-term investment strategy to help you accumulate the money you need to fund your child's education. There are lots of ways to start saving today. For example, you can earmark a portion of gift or inheritance money you receive for college savings. Perhaps you want to set up an automatic investment plan to encourage monthly contributions. And maybe you can encourage your children to invest a portion of gift money or income they receive. The key for you is to start as soon as possible.

Consider the following example illustrated in the table above:

	Jack & Diane	Steve & Sharon
Child's Age	eight	newborn
Goal	**$150,000**	**$150,000**
Monthly investments	$655	$279
Total investments	$102,196	$70,376
Total earnings	$47,804	$79,624
Cost of Waiting	**$31,820**	**$0**

Assumes 8% rate of return. The above is a hypothetical illustration only. Your results may differ.

Two couples need to save $150,000 for college expenses, but begin investing at different times. Jack and Diane start investing when their son is eight years old, making monthly investments of $655 to reach their goal. Steve and Sharon begin investing the year their daughter is born, and they make monthly investments of $279 to reach their goal. For Jack and Diane, it cost $31,820 more to fund their child's education.

Take Action Today

I invite you to call me to discuss the Education Savings Account, 529 College Savings Plans, UGMA and UTMA custodial accounts, and other ways to help you plan for your children's college education.

Your Child's Current Age	Years Until College	What Four Years of College Could Cost[1]		What You Need To Save Per Month[2]	
		Public College	Private College	Public College	Private College
Newborn	18	197,048	405,237	365	752
1	17	188,203	388,903	384	795
2	16	179,754	373,227	405	842
3	15	171,685	358,183	429	894
4	14	163,978	343,746	454	952
5	13	156,617	329,891	483	1,017
6	12	149,587	316,594	515	1,090
7	11	142,872	303,833	551	1,173
8	10	136,458	291,586	593	1,268
9	9	130,332	279,833	642	1,379
10	8	124,482	268,554	699	1,509
11	7	118,894	257,729	767	1,664
12	6	113,557	247,341	850	1,852
13	5	108,459	237,371	953	2,087
14	4	103,590	227,804	1,085	2,387
15	3	98,940	218,621	1,261	2,787
16	2	94,499	209,809	1,506	3,344
17	1	90,257	201,353	1,872	4,178

[1] Projected cost when child enters college, based on a 4.7% (public) and 4.2% (private) annual rate of inflation applied to average total expenses (which include tuition, fees, room, and board) reported by the College Board for the 2016-2017 school year of $20,090 for one year at a four-year public college and $45,370 for one year at a four-year private college.

[2] Assumes that investments earn an average annual return of 8% and that investments continue while the child attends college. Taxes are not taken into consideration.

This is a hypothetical illustration only and does not reflect actual performance of any investment.