

Take Financial Care when Helping Grandchildren with College Costs

Currently college, professional and graduate schools cost more than ever before. The Labor Department has reported that the price index for college tuition grew almost twice as fast as the consumer price index from 2003 to the present. According to the College Board, the average cost of tuition and fees at a public four-year college is almost \$23,000. The average cost for a private four-year college is approximately twice that amount. Thus, many families are faced with sticker shock when it comes to paying for their children's college tuition as the rising costs have outpaced savings earmarked for college. Many families face a financial gap when trying to find the additional funds needed to pay for college out of their income. Some of these families turn to cashing in retirement savings or taking out loans to finance the difference. Concerned grandparents often want to ease the gap by helping out with these costs.

The good news is that grandparents do have several good options available to them. One thing worried grandparents can do to ease the looming burden of tuition costs is to take advantage of creating and funding 529 savings plans for the benefit of their grandchildren. 529 plans are tax-advantaged investing and savings vehicles that grow tax free and allow one to invest money to cover future college costs for a beneficiary. Distributions from the account are also income tax free if they are used for qualified higher education expenses. Qualified higher education expenses include the following: tuition, books, fees, and certain room and board expenses. If the funds are used for non-qualifying expenses, federal taxes and a ten percent tax penalty do apply.

However, flexibility is built into the plans that reduces the likelihood of incurring a penalty: one could keep the funds in the account as there is no age restriction on the investment. The funds would be available if the beneficiary's plans change and additional educational costs crop up in the future. Another alternative is to change the beneficiary of the account for the amounts remaining in the fund, provided the new beneficiary is a qualified family member.

Under Texas' 529 plans, \$370,000 is the maximum contribution of the plan. Additionally, Texas' 529 plans, like most 529 plans, can fund qualified education expenses in any eligible educational institution in the United States or abroad. This includes most two-year and four-year colleges and universities, vocational and technical schools, graduate schools, professional, medical and law schools.

Finally, 529 plans do enjoy a favorable treatment for federal financial aid purposes for the student seeking assistance. If the grandchild's parent is the owner, the account assets will be treated as assets of the parent. For financial aid purposes, 529 plan account balances are counted as family assets for a maximum assessment of 5.64% for the calculation of the expected family contribution. This is less than the usual assessment for figuring the expected family contribution.

There are a few things that grandparents should consider before making gifts to help out grandchildren with college expenses. Grandparents need to consider how gifts to grandchildren affect their own overall estate plan. Issues involving "fairness" may arise in that not all grandchildren have the same financial need. Unequal treatment can cause resentment among family members. Grandparents also

need to be certain that they have enough money to pay for their own needs and expenses. Too many large gifts can quickly deplete a lifetime of scrupulous savings. It would not do the family unit much good if the grandparents "over give" creating a later burden on their own children whom they were trying hard to help out. Additionally, grandparents should consider their own need for long-term care. Private paying at home with caretakers or paying rent in an assisted living can be expensive endeavors. Elderly individuals who cannot afford to pay for their own care need to be aware that giving away their funds can make them ineligible for Medicaid benefits for five years following the gift. Texas does provide an exception to the imposition of a transfer penalty for the funding of certain qualified education plans. Seeking the advice of a competent elder law attorney is key in devising the best plan for yourself as well as your grandchildren.

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