

Helping the Grandkids with College Costs

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As a grandparent, it is likely that you take great pride in the success of your grandchildren.

While a college degree can play

a large part in that success, the cost of college has continued to increase and can be prohibitive for many. It is becoming more common in recent times for family members to help defray the cost of attendance. While not everyone is in a position to help, if you are, there are some considerations to be mindful of before proceeding.

Planning to help

Before proceeding with helping a grandchild with education costs, you should ensure that you can afford to give such assistance. It is not wise to use assets that you will need in retirement for your own support and wellbeing. Here, your financial advisor can be particularly helpful with projections and investment strategies that will help you meet your goals.

Further, college financial planning should not be undertaken as your grandchild prepares to leave for college. Ideally, you will begin this planning no later than when your grandchild is in the early years of high school. Waiting too long to plan may limit your ability to help effectively. It is highly recommended that the student seek the assistance of a college counseling service that provides

financial strategies in addition to admissions coaching. This service not only assists with financial aid planning, but also helps to ensure that the student chooses the best school for their desired career path.

Strategies to explore

One way to help your grandchild pay for their education is to make a gift directly to your grandchild or their parent to fund the educational expenses. When gifting, you must be mindful of the gift tax consequences. Massachusetts does not presently have a gift tax. With respect to the federal government, the 2018 annual gift tax exclusion allows you to give \$15,000 to any person without consequence. Thus, in 2018, you could gift \$15,000 to one or more of your children or grandchildren, and no gift tax would need to be paid. If you are married and file taxes jointly, you each can give \$15,000 for a total of \$30,000 gifted each year to any one person. Likewise, if the student or their parent is married, both of you could gift to both of them for a total of \$60,000 gifted in one year without gift tax consequences.

Another option is to make payment directly to your grandchild's educational institution. The Internal Revenue Service allows you to make direct payments to an educational institution without counting the payment as a gift. Thus, with this option, there is no limitation on how much you pay. Some prefer this option as it gives them the peace of mind of knowing the money given has gone to the intended purpose. It

is also possible to combine techniques thereby making a gift directly to your child or grandchild (and their spouse, if applicable) of up to \$15,000 each and also making payment directly to the college.

A tax-advantaged 529 plan is yet another way for you to save and pay for your grandchild's college education. These plans allow investment for future educational expenses, and the proceeds accumulate income tax-free. Many states also provide a tax write-off for at least a portion of a contribution. A 529 plan that is owned by you – and not by your child or grandchild – does not count toward the estimated family contribution with respect to government financial aid; however, distributions can create a significant impact on financial aid packages.

Potential pitfalls

With each option, there is a potentially negative impact on financial aid, whether offered by the government or by the educational institution. Some colleges may treat direct gifts to the student as cash support that reduces the student's eligibility for need-based aid. Similarly, money in the student's name in the early years of college is weighted more heavily in the financial aid formula than parental income and nonretirement assets. Thus, it may be more beneficial to gift to your child (and their spouse, if applicable), instead of to your

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grandchild. With respect to 529 plans, to avoid a potential reduction in aid due to distributions, grandparents could postpone distributing plan proceeds until the last two years of college.

When it comes to helping a grandchild with college, there are a few options available, but the pitfalls are many. Without proper advance planning, negative unintended consequences may remain unknown until it is too late to avoid them. Explore your options in advance, and you will be able to contribute to your grandchild's success in the manner that will be most beneficial to everyone involved.

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