WHITEPAPER

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SCHOOL IS IN SESSION: *an education planning whitepaper*

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School is back in session! No matter what age your child may be, it is never too early to start planning for their future.

ACCORDING TO THE BUREAU OF LABOR AND STATISTICS, 67.7% OF THE 2016 HIGH SCHOOL GRADUATES WENT ON TO A COLLEGE OR UNIVERSITY

which means the chances that your child, or children, will go on to college is greater than half!

So now that we know that your child will most likely go onto higher education, the question remains, how should families prepare to pay for it? One of the biggest financial outlay's in a family's life may be funding the higher education of their children. We see it on the news. We read it in the papers, and we hear it from our friends. College is expensive. But just how expensive is it now and how much more expensive will it be in the future?

The average annual national costs of tuition, fees, and room and board at a 4 year university*:

2016-2017	2035 Projections
$27,730*** (PUBLIC)	$66,740 (PUBLIC)**
$45,370 (PRIVATE)	$109,190 (PRIVATE)**

** Source: www.collegeboard.com.*
***17 year projection based on the current inflation rate of 5% . These are only projections.*
**** Average between in-state and out-of-state cost*

While the numbers above may appear frightening, there are ways to start saving for college now that may be beneficial to you and your college student down the road.

One of the most common ways to save for your child's education is to establish a 529 savings plan. The 529 savings plan has gained popularity since it was established in 1996, mostly due to its flexibility, tax deferred growth, tax free distributions for qualified costs and, depending on the state you live in, a state tax deduction for your contribution. Pennsylvania allows a state tax deduction up to $14,000 per year for single tax payers and $28,000 per year for married filing joint tax payers. Unlike other education savings vehicles or personal savings accounts, the tax free investing and tax deferred withdrawals allowed in a 529 savings plan let's you get more value for each dollar that you contribute.

In addition to the tax benefits, the 529 savings plan also has other features that make it unique. A 529 savings plan allows the owner to retain control of the account. Unlike other savings vehicles such as the Uniformed Transfer to Minors Act account, otherwise known as the UTMA, you do not have to relinquish control of a 529 account when the beneficiary reaches 21. This is an important distinction between savings vehicles. If you fund an UTMA account for your child and they do not go to school, your child will then become owner of the account when they reach legal age and will have the right to spend that account as they see fit. Secondly, if you do fund a 529 account for your child and there is money left over in the account after the finish school, you can change beneficiaries of the 529 account to another child. It is important to note that while 529's allow for high contribution, there are limits on how much you may fund into the account. While the law can vary from state to state, you generally cannot contribute over $200,000 to a 529 savings plan. As an owner, it is best not over fund the account as any money withdrawn that is not a qualified cost will be subject to federal, state, and local income tax along with a 10% federal penalty. Overall, the benefits of a 529 savings plan far outweigh their limitations making this approach a popular option for families who would like to start saving for college now.

The 529 savings plan is not the only way to save for college. An UTMA account was a wildly popularly savings vehicle prior to the 529 accounts, and it is still an option today. While we mentioned previously one prominent limitation of using an UTMA account for saving for school, it too can have beneficial features that can make it an appropriate choice for your family. An UTMA is a custodial account which means the assets are held in the custodian's name (ex. the parent) for the benefit of a minor (ex. the child). There are no contribution limits associated with an UTMA account, and you contribute both cash and securities. Please note that 529 accounts only allow cash contributions. While what type of assets you contribute is flexible, it is important to understand that any contributions of cash or securities into an UTMA account are considered an irrevocable gift to the minor listed on the account, and in turn, the minor now owns those assets.

Now you may be asking yourself what is the benefit of making an irrevocable gift to your child? The benefits lie in the distributions allowed from the UTMA account and the taxation of the account. Unlike a 529 account, UTMA accounts have a much broader definition on what is considered a qualified distribution. Generally, if the expense is for the child's benefit, you may take a distribution from the UTMA account. An example of where this applies is paying for private school tuition. Unlike a 529 account, you make take distributions from an UTMA account to pay for pre-college private school costs. The second notable benefit is the taxation of the UTMA account. Because your child is the owner of the account, the IRS allows the first $1,000 of unearned income to be tax free and the next $1,000 of unearned income to be taxed at the child's tax rate. Presumably, most children are in a lower tax bracket than their parents and, therefore, the first $2,000 of unearned income in an UTMA account has little or no tax associated with it. While the tax benefits of an UTMA account aren't as lucrative as 529 savings plan account, you still receive a tax benefit that you would have otherwise not received by saving into a personal invest account in your name.

Planning for college can seem like a complicated and stressful task to endure. By planning properly and using the appropriate investment vehicles, you can add tangible value to your money over time. At Fragasso Financial Advisors, we are here to help guide you through all steps of planning and funding all your education needs.

Prior to investing in a 529 Plan investors should consider whether the investor's or designated beneficiary's home state offers any state tax or other benefits that are only available for investments in such state's qualified tuition program. Withdrawals used for qualified expenses are federally tax free. Tax treatment at the state level may very. Please consult with your tax advisor before investing.

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