

Money Matters

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Skloff Financial Group: Question of the Month

By Aaron Skloff

Q: With the holiday season upon us, we were thinking about giving our children a more lasting gift than the typical gift of toys. What benefits might we and our children gain by contributing to a 529 savings plan?

The Problem – Finding a Lasting Holiday Gift. While giving countless toys that will surely be forgotten in the course of days or weeks is easy, finding The Gift That Keeps on Giving is harder than it seems.

The Solution – 529 Savings Plan - The Gift That Keeps on Giving. A 529 savings plan can truly improve a child's entire life. When you contribute to a 529 savings plan you give a precious and powerful gift – funding for a higher education. Clearly, Congress agrees. Congress established Section 529 of the tax code so savings used for qualified higher education expenses at an accredited education institution would be free from taxes. Qualified expenses include tuition and fees, books, equipment and supplies required for a student's field of study, and room and board.

529 Savings Plan Basics. The current contribution limit per year is \$13,000 per beneficiary – that is \$26,000 for a husband and wife per beneficiary. A single contribution, totaling \$65,000 per beneficiary, is permitted as long as no further contributions are made by that contributor (donor) to the same beneficiary until the sixth year. Interest, dividends and capital gains that you earn inside the 529 savings plan are all free of taxes. If the savings are used for higher education the entire amount can be withdrawn free of taxes. If the savings are used for other purposes the profits are taxed and assessed a 10% penalty. If a student is fortunate enough to receive a scholarship, there are no penalties on withdrawals of the same amount.

529 Savings Plan Estate Planning Benefits. 529 savings plans are one of the most powerful, lowest cost estate planning vehicles. Contributions made to a 529 are removed from your estate. Unlike most solutions that remove assets from estates and leave little control over investments and beneficiaries, the 529 allows owners to change investments and beneficiaries every year. Because 529 owners can name a successor to the account when they pass away, a 529 can be used for multiple generations.

Just imagine a grandmother and grandfather who strongly believe in education. Each makes \$65,000 contributions as follows: each other's 529, four children, 16 grandchildren, 64 great-grandchildren and even their gardener's three children. In total, they contribute over \$5.8 million and instantly remove the same amount from their estate.

Note. Aaron Skloff, Accredited Investment Fiduciary (AIF), Chartered Financial Analyst (CFA), Master of Business Administration (MBA) is CEO of Skloff Financial Group, a Registered Investment Advisory firm based in Berkeley Heights. He can be contacted at www.skloff.com or 908-464-3060.