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# The Birth of a Grandchild



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Retirement

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CONGRATULATIONS! THE ARRIVAL OF A GRANDCHILD IS ALWAYS AN EXCITING TIME. SINCE MANY GRANDPARENTS WISH TO ASSIST IN COVERING THEIR GRANDCHILDREN'S FUTURE FINANCIAL NEEDS, IT'S ALSO A GOOD TIME TO CONSIDER FINANCIAL PREPARATIONS FOR THE FUTURE. IF YOU HOPE TO PROVIDE FUNDS TO YOUR GRANDCHILDREN, BOTH 529 PLANS AND TRUSTS ARE BENEFICIAL OPTIONS.

## First, you'll need to determine what type of financial assistance you would like to provide for your grandchildren.

Start by answering these questions:

- *Do you want to help save for their education, or do you hope your assistance can be broader than that?*
- *Do you prefer to set up a trust that they can access at a set point in the future?*
- *How much would you like to give per year?*
- *Will that amount exceed gift tax deduction limits?*

## 529 Plans for Education

529 PLANS CAN BE A WONDERFUL WAY TO SAVE FUNDS FOR YOUR GRANDCHILD'S COLLEGE EDUCATION, AS THE MONEY IS SECURE AND ABLE TO GROW TAX-DEFERRED.

529 plans are available in nearly every state, and you're not limited to choosing one from your state of residence, giving you plenty of options. Most 529 plans also offer generous annual contribution limits, which can vary from year to year. However, the downside is that the funds must be used for educational expenses. So, if your grandchild decides not to attend college, or if the actual costs are lower than what you've contributed, you'll face a 10% penalty for withdrawing funds for non-education-related expenses. It's also important to note that having a 529 plan may affect financial eligibility.

Doing research on your own and discussing your options with a qualified financial advisor can help you determine whether a 529 plan is the best way to accomplish your goals.

## Trusts

YOU MAY FIND THAT A TRUST IS A BETTER FIT FOR YOUR GRANDCHILD.

The benefit of a trust is that there is more flexibility, as the funds are not earmarked for education as they are with a 529 plan. You can set the terms on how your contributions are used. Note that a trust must be reported when your grandchild applies for financial aid using the Free Application for Federal Student Aid (FAFSA). This means the existence of a trust could impact financial aid qualification, even if the money is not earmarked for education. In fact, the existence of a trust may affect needs-based financial aid by 20% of the asset value.

### DID YOU KNOW?

The 2017 Tax Cuts and Jobs Act expanded 529s to also cover K-12 private school and qualified education-related expenses, which offers a valuable benefit if your grandchildren are attending private schools. Also of note: there are no mandatory withdrawals, and they can even be rolled over to a new beneficiary.

## Investing in a 529 Plan for Your Grandchild: A Case Study

In this case study, we will explore the financial journey of James and Elizabeth, loving grandparents who wanted to provide their grandchild, Emily, with the gift of education. They sought our guidance to understand the benefits of investing in a 529 plan. Let's delve into their story and discover the advantages of this investment strategy.

### Background:

James and Elizabeth were determined to support Emily's educational aspirations from an early age. They wanted to contribute towards her college expenses and help alleviate the burden of student loans. We introduced them to the concept of a 529 plan—a tax-advantaged investment vehicle specifically designed for education.

### Goals:

James and Elizabeth were financially stable, with a well-diversified investment portfolio and a comfortable retirement savings plan. They had surplus funds that they could allocate toward Emily's education without jeopardizing their own financial goals.

### Strategy:

The primary goal was to ensure that Emily had sufficient funds for her college education when the time came. James and Elizabeth also wanted to take advantage of potential tax benefits and maximize the growth of their investment over time.

### Benefits and Outcomes:



**Tax Advantages** By investing in a 529 plan, James and Elizabeth enjoyed tax advantages. Their contributions grew tax-free, and qualified withdrawals for Emily's education expenses would be tax-free as well.



**Potential Growth** Given Emily's young age, they had a long-term investment horizon, allowing their contributions to potentially grow over time through the power of compounding.



**Flexibility** The 529 plan provided flexibility in terms of investment options, allowing James and Elizabeth to choose an investment strategy that aligned with their risk tolerance and time horizon.



**Estate Planning Benefits** Contributions to the 529 plan reduced their taxable estate, potentially providing additional estate planning benefits.



**Education Funding Security** By regularly contributing to the 529 plan, James and Elizabeth were confident that they were building a solid foundation for Emily's education. This gave them peace of mind and ensured that financial limitations wouldn't hinder her educational opportunities.

**The case study of James and Elizabeth highlights the significant benefits of a 529 plan as a valuable tool for grandparents seeking to contribute to their grandchildren's education and leave a lasting legacy.**

## Revocable and Irrevocable Trusts

If you decide to utilize a trust, there are multiple types from which to choose. Revocable trusts, or living trusts, can be modified or revoked at any time. Revocable trusts can be useful in avoiding probate, which is a long and costly process, but they will not protect assets from creditors or lawsuits. Irrevocable trusts, on the other hand, cannot be modified once created. The upside of this type of trust is that the assets are off limits to creditors. A custodial account would, by law, give your grandchild ownership when they turn 18 or 21, based on variables in state law.

Different types of trusts will also offer you a variety of options for control. You may set withdrawal amounts, restrict access based on age, or add discretionary provisions. Common ones include requiring your grandchild to use the funds for purchasing a home or paying for a wedding.

## Looking to the Future

Grandchildren can add much joy to your life and providing them with a sound financial future is a wonderful gift. 529 Plans and Trusts and are not just vehicles for the ultra-rich, but a valid option for anyone who wants to set money aside for the benefit of future generations.

# Would you like to discuss your retirement plan?

Schedule your Discovery Call by visiting our website [safetreeretirement.com](https://safetreeretirement.com)  
or call us at (830) 643-9714.

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