



Investment Insights

Kevin Kennedy

Labor Day. Now that I'm nearly 40, the holiday doesn't hold the same significance as it did when I was a kid. Why? Because back then, Labor Day marked the end of the fun, and the return to...school! If you have a child in school, you've probably just spent the last few weeks buying clothes, supplies, and other necessities in preparation for the ominous day (and, no, the \$125 Nike's don't count as necessities). However financially demanding the back-to-school season is for parents, there looms on the horizon an even bigger financial liability: college. While my son might lose a little sleep on the eve of his first day of kindergarten, it is I who tosses and turns at the prospect of possibly shelling out a low six-figure amount of money in 13 short years for his college education. Regardless of how long you have until that dreaded Labor Day when junior packs the car and heads off to college, you can do a little planning and saving now to help soften the financial blow. One of the most effective ways to save for college costs is through a Section 529 Plan.

Section 529 Plans

The name 529 plan refers to IRS Code 529, which established the framework for a tax-advantaged way to save for college. These accounts are available to all Americans, regardless of income levels. 529 accounts are typically set up with a parent acting as the account owner, and the child as the beneficiary. In many cases, contributions to an account can total upwards of \$200,000, making it possible to cover most or all college cost liabilities through a 529 account.

A 529 plan account has two major advantages over other college savings vehicles. First, it has brilliant tax advantages. Tax-wise, a 529 plan account works much like a ROTH IRA: contributions are made with after-tax dollars, but withdrawals come out free of state and federal taxes if they meet certain restrictions. In the case of the 529, withdrawals must be used to pay for qualified college expenses of the account beneficiary to be tax-free. Qualified expenses can include tuition, books, and room and board. Being able to withdraw money tax-free can have a huge benefit when you take into account the growth you will likely see over the years in money you contribute to the account, and the taxes that would normally be due when the profits are withdrawn. Under the current law, this tax benefit is set to expire in 2010, after which point distributions would be taxable to the beneficiary. However, many tax experts believe this law will be made permanent so that distributions for qualified expenses will always be tax-free.

The second big advantage of 529 plan accounts is the fact that the owner of the account, typically the parent, controls the assets in the account. Unlike Uniform Gift/Transfer to

Minor accounts, the assets in a 529 account do not become the property of the beneficiary when they turn 18 years old. In fact, in most cases the beneficiary can be changed to another member of the immediate family. Thus, if a designated beneficiary does not use any or all of the money in his/her account for college, the beneficiary can be changed to a sibling for their benefit.

There are a couple of additional strategies we have recommended to clients that I'll touch on briefly. First, by taking advantage of accelerated gifting laws, it is possible for a husband and wife to contribute up to \$110,000 in one year to a child's 529 plan account. This is allowable because you can treat the one-time gift as being made over a five-year period, thus coming in under the annual \$11,000 gift tax exclusion. This is also true for grandparents, and this can be a great way for grandparents to reduce the size of their estate for tax purposes.

The second strategy we've been employing takes advantage of the downturn in the markets over the past few years. If you currently have a UTMA account for your child, it may be worth less than the amount you contributed to it. If you do have a capital loss, you may be able to sell the assets in the account and transfer that money into a 529 plan account without owing taxes. This strategy is attractive to many parents because the future growth of these assets will benefit from the advantageous tax laws regarding 529's. Some restrictions do apply when using this strategy, so again it is best to talk with your advisor on how you can use this situation to your advantage.

For more information on 529 plans, feel free to call or e-mail us. You can also check out www.savingforcollege.com for more detailed information and current news on 529 plans.

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