Giving Your Loved Ones a Head Start

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When you give your child, grandchild, niece, or nephew a trendy gadget as a gift, they may enjoy it for a while, then move on to something new. However, when you help them fund their college education, the benefits can be lifelong with ripple effects across generations.

Those with a college degree tend to earn more. Helping a loved one pay for an undergraduate degree can give them an edge. According to the College Board, an individual with a bachelor's degree earns about 65% more, on average, than a high school graduate and about $400,000 more over the course of a lifetime, factoring for the cost of the degree.[1]

College costs are on the rise. The cost to attend a private four-year institution increased by an average of 6% over the ten-year period between 2012/13 – 2022/23.[2] For the top national universities (per U.S. News & World Report), tuition and fees are currently at more than $60,000 per year.[3] Costs are higher when you include room and board and other expenses, such as books and travel to and from school.

School	Tuition and Fees
Princeton University	$57,410
MIT	$57,987
Harvard University	$57,261
Stanford University	$56,169
Yale University	$62,250
University of Chicago	$62,940
Johns Hopkins	$60,480
University of Pennsylvania	$63,452
California Institute of Technology	$60,864
Duke University	$63,054

There are many options for saving. A 529 Savings Plan, also known as a qualified tuition plan, is a tax-advantaged way to save for college. Account earnings grow tax free, qualified withdrawals are not subject to tax if used for qualified education expenses, and depending on your state of residence, you may be able to deduct contributions from your state income tax calculations. Recently, SECURE Act 2.0 created a solution for unused 529 Savings Plan assets. Starting in 2024, 529 Plan account owners can roll over up to an aggregate lifetime limit of $35,000 from a 529 Plan into a Roth IRA for the benefit of the 529 Plan beneficiary, subject to certain restrictions.[4]

Unlike 529 Plans, UGMA (Uniform Gift to Minors Accounts) and UTMA (Uniform Transfers to Minors Accounts) do not offer tax advantages but are more flexible in their use. Gifts amounts are unlimited (but amounts above the federal gift tax maximum are taxable) and the assets do not have to be used for education. However, these are custodial accounts owned by the named minor which could affect their ability to qualify for student aid. Contributions are irrevocable, becoming the property of the beneficiary upon transfer; and when the beneficiary reaches the age of majority, he or she gains control of the assets. For high-net-worth individuals, a trust may provide the most flexibility when it comes to saving for college because the funds are not limited to educational purposes or to one beneficiary, and assets in the trust are protected from creditors.

Starting early can make a difference. Regular contributions to a 529 Plan can add up significantly over time, especially with the benefit of compounding interest. As an example, imagine you welcomed a new granddaughter into the family this year. By committing to contribute $1,500 into a 529 Plan twice each year, with one deposit on her birthday and one for the holidays, and assuming an average annual return of 6%, your contributions could potentially add up to more than $86,000 toward her tuition! And if you double the gift and deposit $3,000 twice a year, your contributions may provide more than $170,000 that can be applied towards her education.

There are many ways to help a loved one save for college. Your Palisade team can work with you to develop a strategy that is best for your family.

1 Education Pays 2023, The Benefits of Higher Education for Individuals and Society, Ma, Jennifer and Pender, Matea, College Board

2 Trend in College Pricing and Student Aid 2022, College Board

3 Best National University Rankings, U.S. News & World Report, as of 3/30/23

4 https://www.fidelity.com/learning-center/wealth-management-insights/secure-act-2-529s-and-iras

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