

529 PLANS

Grandparents: Now is the Time to Contribute to Your Grandkid's 529 Plans

With new changes to the FAFSA process, you can “superfund” their college savings – without affecting their financial aid status.



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Did you know that Americans owe nearly \$1.75 trillion in student loan debt? This staggering number is spread out among 48 million borrowers. But as a grandparent, you can help your children and grandchildren mitigate this by contributing to a 529 plan. A 529 plan is a tax-advantaged savings plan designed to encourage saving for future education costs.

According to a recent survey by the College Savings Plans Network, the average 529 plan balance as of Dec. 31, 2021, was \$30,652. But is that an adequate amount? Most student tuition and housing costs are going to run much higher than that for four years of college (\$43,755/year for a private school and \$11,631/year for state residents at public colleges), and many students will need to rely on a combination of savings and financial aid to pay for some or all of those costs.

If you are looking to save money for your grandchildren’s education without hurting their aid eligibility, some recent changes in 529 plans are going to make that easier.

Simplifying the application process is in the works

Good news: The government is working to streamline the FAFSA (Free Application for Federal Student Aid) application process, as part of a bill that was signed into law in December 2021.

Some of the changes are being phased in over multiple calendar years. We can expect to see a new streamlined FAFSA form in October of 2022. Some changes went into effect for the 2021-22 award year, while other changes won't be completely implemented until the 2024-25 award year.

Distributions from your 529 will no longer reduce your grandchild's financial aid

In the near term, there's a welcome change that grandparents can begin taking advantage of for financial planning purposes.

Under the old FAFSA rules, students were required to report distributions from grandparent-owned 529 savings plans as untaxed student income, which had the potential of reducing a student's aid eligibility by up to half of the distributed amount from the college savings plan.

In other words, a \$15,000 distribution from a grandparent's 529 plan could reduce aid eligibility by \$7,500. This has led some families to do some tricky planning — where grandparents would delay 529 distributions until the grandchild was in their last few years of college to avoid the potential financial aid eligibility pitfalls.

Fortunately, with the FAFSA simplification come new rules regarding how grandparent 529 assets are treated. The new rules, *effective for the 2023-2024 school year*, will no longer count distributions from grandparent-owned 529 college savings plans as untaxed student income, and they will not have a detrimental impact on aid eligibility.

But grandparents can take advantage of the new 529 rules now. Why? The FAFSA looks back at the *prior two years* of a student's income tax returns.

If you want to retain control over your college savings for one or more grandchildren, you can now do so without having to worry about it hurting their financial aid eligibility. And you can say goodbye to the complexities of planning distributions in future calendar years to avoid potential problems.

Superfunding five years of gifting into one

One advantage of 529 plans that many people aren't aware of is that they allow a contributor to superfund five years' worth of tax-free gifting into a single calendar for a beneficiary. Normally you can gift \$16,000 per year using the annual gift tax exclusion amount. With a 529 you can gift \$80,000 in one year (or \$160,000 if married filing jointly) and avoid gift taxes. You can only do this every five years, but this strategy does offer some great planning opportunities.

An added benefit for wealthy families is that 529s can remove assets from your estate while allowing you to retain control over them. A 529 savings plan is a great vehicle for accelerating savings and maintaining tax efficiency.

529 college savings plans continue to be popular vehicles for college savings. Growth and earnings of assets in these plans are tax-free as long as future cash distributions are used for qualified educational purposes, including such things as tuition, textbooks and computers.

With the new FAFSA changes, it's a great opportunity for grandparents to revisit their savings plan.

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