

# Retirement Point

NEWS FOR PLAN SPONSORS AND PARTICIPANTS

June 2020

## College Funding Options

You can plan to meet the costs through a variety of methods.

### U.S. Markets

Stocks rallied in May, sparked by a supportive Federal Reserve, stories of states re-opening, and reported progress on a COVID-19 vaccine. The Dow Jones Industrial Average rose 4.2%, while the Standard & Poor's 500 Index picked up 4.5%. The NASDAQ Composite led, gaining 6.7%.<sup>1</sup>

### Shift in Focus

April's positive momentum continued into May, as stocks registered healthy gains, and investors looked to future economic hopes rather than current woes. Further aiding stocks was a better-than-expected jobs report and firming oil prices. Many investors breathed a sigh of relief on the news that U.S. and Chinese negotiators were planning to meet, despite the rising tensions between the two nations.

MARKET INDEX	Y-T-D CHANGE	May 2020
DJIA	-11.06%	4.26%
NASDAQ	5.76%	6.75%
S&P 500	-5.77%	4.53%
YIELD	YTD	May 2020
10 YR TREASURY	-1.27%	0.65%

Sources: Yahoo Finance, May 31, 2020

The market indexes discussed are unmanaged, and generally, considered representative of their respective markets. Individuals cannot directly invest in unmanaged indexes. Past performance does not guarantee future results. U.S. Treasury Notes are guaranteed by the federal government as to the timely payment of principal and interest. However, if you sell a Treasury Note prior to maturity, it may be worth more or less than the original price paid.

### Monthly Quote

*"The older I get, the smarter my father seems to get."*

-TIM RUSSERT

### Tip of the Month

Updating your will is as important as having one. If you drafted a will years ago, it may likely need some adjustments. Revisit your will often and keep it up to date.

### The Monthly Riddle

Here's a food riddle. Someone strips away the outside of this food, leaving you free to boil, cook, or grill the inside. (So, what was the "inside" is now an uncovered outside.) You eat the new outside and throw away the inside of that. What food are you eating?

### Last month's riddle:

Its teeth are sharp, and its spine is straight. It is not innately vicious, it does not hunt, but to cut things up is definitely its fate. What is it?

### Last month's answer:

A Saw

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## ***College Funding Options***

You can plan to meet the costs through a variety of methods.

How can you cover your child's future college costs? Saving early (and often) may be key for most families. Here are some college savings vehicles to consider.

**529 college savings plans.** Offered by states and some educational institutions, these plans allow you to save up to \$15,000 per year for your child's college costs without having to file an I.R.S. gift tax return. A married couple can contribute up to \$30,000 per year. (An individual or couple's annual contribution to a 529 plan cannot exceed the yearly gift tax exclusion set by the Internal Revenue Service.) You can even front-load a 529 plan with up to \$75,000 in initial contributions per plan beneficiary – up to five years of gifts in one year – without triggering gift taxes.<sup>1,2</sup>

529 plans commonly feature equity investment options that you may use to try and grow your college savings. You can even participate in 529 plans offered by other states, which may be advantageous if your student wants to go to college in another part of the country. (More than 30 states offer some form of a tax deduction for 529 plan contributions.)<sup>1,2</sup>

Earnings from 529 plans are exempt from federal tax and generally exempt from state tax when withdrawn, so long as they are used to pay for qualified education expenses of the plan beneficiary. If your child doesn't want to go to college, you can change the beneficiary to another child in your family. You can even roll over distributions from a 529 plan into another 529 plan established for the same beneficiary (or another family member) without tax consequences.<sup>1</sup>

Grandparents can start a 529 plan (or other college savings vehicle) just like parents can. In fact, anyone can set up a 529 plan on behalf of anyone. You can even establish one for yourself.<sup>1</sup>

These plans now have greater flexibility. Thanks to the federal tax reforms passed in 2017, up to \$10,000 of 529 plan funds per year may now be used to pay qualified K-12 tuition costs.<sup>2,3</sup>

**Coverdell ESAs.** Single filers with modified adjusted gross incomes (MAGIs) of \$95,000 or less and joint filers with MAGIs of \$190,000 or less can pour up to \$2,000 into these accounts annually, which typically offer more investment options than 529 plans. (Phaseouts apply above those MAGI levels.) Money saved and invested in a Coverdell ESA can be used for college or K-12 education expenses.<sup>3</sup>

Contributions to Coverdell ESAs aren't tax deductible, but the accounts enjoy tax-deferred growth, and withdrawals are tax free, so long as they are used for qualified education expenses. Contributions may be made until the account beneficiary turns 18. The money must be withdrawn when the beneficiary turns 30, or taxes and penalties will occur. Money from a Coverdell ESA may even be rolled over into a 529 plan.<sup>3,4</sup>

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**UGMA & UTMA accounts.** These all-purpose savings and investment accounts are often used to save for college. They take the form of a trust. When you put money in the trust, you are making an irrevocable gift to your child. You manage the trust assets until your child reaches the age when the trust terminates (i.e., adulthood). At that point, your child can use the UGMA or UTMA funds to pay for college; however, once that age is reached, your child can also use the money to pay for anything else.<sup>5</sup>

**Whole life insurance.** If you have a permanent life insurance policy with cash value, you can take a loan from (or even cash out of) the policy to meet college costs. Should you fail to repay the loan balance, obviously, the policy's death benefit will be lower.<sup>6,7</sup>

Did you know that the value of a life insurance policy is not factored into a student's financial aid calculation? If only that were true for college savings funds.<sup>6</sup>

Imagine your child graduating from college, debt free. With the right kind of college planning, that may happen. Talk to a financial professional today about these savings methods and others.



For more information on investment choices for your retirement plan, please call Darsh Makim at 202-618-3977 or email at [dmakim@pointoak.com](mailto:dmakim@pointoak.com)

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#### CITATIONS ECONOMIC SECTION:

- 1 - IRS.gov, May 28, 2020
- 2 - CNBC.com, May 29, 2020
- 3 - forbes.com, September 9, 2019
- 4 - IRS.gov, May 28, 2020
- 5 - Finaid.org, May 28, 2020
- 6 - FinancialResidency.com, July 20, 2019
- 7 - FA-mag.com, September 24, 2019

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- 1 - The Wall Street Journal, May 31, 2020

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