
THE COLLEGE PLANNING LIFECYCLE

STAGE 3 - GRANDPARENTS CAN HELP, TOO



Pekin Hardy Strauss has partnered with Valle Educational Consultants to develop a roadmap called The College Planning Lifecycle. In this three-part article series, we will help you understand this lifecycle and provide you with strategies for managing the challenges it poses for families.

THE COLLEGE PLANNING LIFECYCLE - STAGE 3: GRANDPARENTS CAN HELP, TOO

As a parent, you have a lot on your plate. Preparing for college costs is unlikely to be your top priority. However, with college education costs having skyrocketed over the past few decades and the application process becoming ever more competitive, it is never too early to begin thinking about your child's college education.

To help prepare you for one of the most significant financial and educational undertakings that you will encounter, [Pekin Hardy Strauss](#) has partnered with [Valle Educational Consultants](#) to develop a roadmap called *The College Planning Lifecycle*. In this three-part article series, we will help you understand this lifecycle and provide you with strategies for managing the challenges it poses for families. We will examine three stages in our series as follows:

- [Stage 1: The Early Years](#)
- [Stage 2: The High School Years](#)
- *Stage 3: Grandparents Can Help, Too*

STAGE 3: GRANDPARENTS CAN HELP, TOO

HOW TO EFFECTIVELY MANAGE GIFTS FROM GRANDPARENTS

In part three of this guide, we discuss some important considerations for grandparents who are looking to help with college funding for their grandchildren. As with any financial planning topic, there is no one-size-fits-all approach to managing college expenses, so we encourage you to contact us to discuss your unique situation and to develop an individualized plan for meeting this financial goal. In this article we explore college funding and estate planning strategies, as well as discuss how to lessen any impact funding may have on the financial aid process.

HOW TO HELP FUND COLLEGE COSTS

There are many ways grandparents can help fund college costs without giving funds directly to the student. It is important for grandparents, parents, and grandchildren to understand the appropriate options and choose which makes the most sense for their situation. In this third part of the College Lifecycle Planning guide, we discuss the most common ways that grandparents can help with college costs and the financial aid implications of each option.

Before reviewing means of saving and gifting, it's important to understand how colleges think about grandparent assets in the financial aid process. The two primary forms that students and their families submit for financial aid

consideration in college are the Free Application for Financial Student Aid (FAFSA) and the College Scholarship Service (CSS) Profile. The FAFSA only asks for assets listed in the parents' and student's names. It does not ask for assets saved by a grandparent in, for example, a 529 plan. If the student is applying to [selective colleges that use the CSS Profile](#) in addition to the FAFSA, assets sheltered in a [grandparent's name](#) must be reported.

With this important distinction in mind, we now review the savings account and gifting and contribution options that are available to grandparents:

529 PLANS

We addressed 529 plans in some detail in [Article 1 of this series](#). While 529 plans are often set up and funded by parents, grandparents may also open and fund 529 plans for their grandchildren. Grandparents who wish to use a 529 plan to help fund their grandchildren's educations may want to open an account in their own names as owners in order to maintain control over beneficiaries or so that they can gift funds to an account controlled by a parent. Grandparents who wish to gift funds may choose to make smaller ongoing contributions up to \$15,000 per year and stay within IRS gift tax guidelines or may bundle five years of 529 plan contribution up to \$75,000 as a single upfront contribution to one student's 529 plan.¹

If a student doesn't need money from their grandparents immediately, a good strategy may be to use the parents' 529 funds for the first two years of college, drawing down parental assets, and then use grandparent funds during the junior and senior years of college. Toward the end of college any 529 distribution will not count against the student's financial aid package calculation.

PAYING TUITION DIRECTLY TO THE SCHOOL

Some grandparents elect to make payments directly to the school on behalf of their grandchildren. This approach is advantageous in that it allows the grandparents to maintain control of their funds, the funds used toward tuition payments do not count against annual gift tax exclusions, and it's a very simple way to contribute to a grandchild's education funding. However, it is important to know that employing such a strategy could potentially cost the student money in their financial aid package. A grandparent's financial gift can be counted as student income. Given that 20% of the student's

¹ <https://www.brightstart.com/tax-center/>

assets are considered on FAFSA (25% on CSS Profile) it is important to weigh all pros and cons of this strategy at least two years prior to the student's filing year.

PROVIDE A DIRECT LOAN TO YOUR GRANDCHILD

The IRS allows individuals to make interest free loans up to \$10,000. Grandparents may wish to use this strategy to help fund their grandchildren's educations, as it would allow them to set their own repayment terms, and the loan could be converted to a gift in the future. However, such a gift could, in some cases, be considered taxable income to the grandchild if it is deemed to be debt forgiveness.²

PAY OFF YOUR GRANDCHILDREN'S STUDENT LOANS

Grandparents can make payments toward their grandchildren's student loans after graduation. These payments are considered gifts so a grandparent will need to stay under the annual gift allowance amount of \$15,000 in order to avoid IRS reporting. To help grandparents plan, it is worth noting that Stafford loans that are secured by students during college are due to begin a repayment process six months after completion of college or immediately following a student dropping to less than full-time enrollment status.

SET UP AN EDUCATION TRUST

Some grandparents may choose to set up a trust to help fund their grandchildren's college educations as part of their estate planning. Grandparents who employ such a strategy should plan carefully to ensure that withdrawals from the trust can be made in accordance with college billing schedules. While many trusts are designed to allow a single withdrawal each year up to a certain dollar amount, colleges typically bill on a per semester or per quarter basis. And because scholarships and grants that offset total costs are posted to student accounts at varying times during the year, costs billed to a student are likely to vary by semester. Therefore, any trust that is set up to fund college costs should be carefully designed to meet this specific need.

CUSTODIAL ACCOUNTS

Custodial accounts, which we addressed in [Part 1 of this guide](#), represent a highly flexible way to fund college costs. However, grandparents who wish to set up or contribute to a grandchild's custodial account should be aware of the fact that such accounts are considered assets of the student in the financial aid process and thus can have a significant impact on financial aid eligibility.

² <https://www.irs.gov/instructions/i709>

Helping to fund college education costs is a wonderful way for grandparents to share their wealth with their grandchildren, and as we've shown, there are many different strategies for doing so. However, it is important for grandparents to understand how each strategy might impact the student's financial aid eligibility and to plan accordingly. Grandparents should also be aware of how any college funding strategy they pursue might affect their own tax situation and estate plan. With proper planning, grandparents can give their grandchildren the truly special gift of reducing the financial burden of college education.



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