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Leveraging Investment Accounts To Help Fund Your Children's Education

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A college education is one of the biggest investments that you will make in your life. Whether it's improving your own career path or setting aside a college fund for your kids, you will be facing a hefty bill. Costs don't appear to be slowing either. According to CollegeBoard, the average price of college tuition for the 2019-20 academic year increased by 3.4% alone which doesn't include expenses such as room and board, transportation, books, and plenty of other costs associated with college life. There are numerous ways to finance education, but we will focus on various retirement vehicles that can be tapped to help pay for college.

Many might not know this, but a married couple can front load a 529 account for up to five years per recipient. You can contribute a maximum of $15,000 a year and go forward four more years. In addition, a married couple can partake in gift splitting. That means $30,000 a year per married couple, and within the annual gift limit. Therefore, a married couple can front load a 529 account for $150,000 and be within the annual gifting limit per recipient. They would not incur any or be subject to any gift tax. Of course, they cannot provide any further gifting to this recipient for the next four years. For example, if a married couple were to front load a 529 account in 2020, they could not give any further financial gifts to this recipient until 2025. Remember that this married couple can do this same 529 account strategy for multiple recipients. In addition, there is no limit on payments sent directly to an academic institution. Academic institutions also include primary school, secondary school, and trade/vocational school. The unlimited cap concept is also true for health care expenditures paid directly to the hospital or medical facility. This method not only helps your overall estate plan, but also provides funds for any college education needs.

An additional way to pay for college is using the cash value from a permanent life insurance policy. Examples of permanent life insurance are universal life and whole life. Note that a policy owner needs to leave some cash in a universal life policy if paying premiums out of the cash value. Or, the owner can pay the annual policy premium by cash, check or credit card, and utilize the majority of the cash value for college expenses. You would obviously want to prevent the policy from crashing. A permanent life insurance policy is in place for a reason, and the owner would not want to lose that policy because of not paying premiums or not leaving enough cash value in the policy. There is a two-fold purpose to permanent life insurance – death benefit at the end of the insured's life and a source of college funding.

A drawback of this strategy is that this would adversely affect the beneficiary's financial aid package. However, this option isn't just for parents, but can be used by grandparents as well. They can utilize

their 529 account to pay for the grandchild's third and fourth year of college. If they paid for the first two years of college, these funds would count in the student's financial aid application.

Another option is to consider tapping into a Roth IRA. The assumption here is that the account has been open for at least five years, and the account holder is at least age 59 ½. Contributions to a Roth IRA are after tax. In addition, any appreciation and income in the account is tax free when distributed. Typically, a retirement account is set aside for one's financial future. A person may have multiple accounts and/or a pension. In that case, the Roth IRA would not be a source of funding for retirement. Therefore, this would be an additional funding source for college. In the scenario where the Roth IRA accountholder is not age 59 ½, there would be tax consequences but no 10% penalty for drawing out of the account for college. But note that for a Roth IRA distribution, contributions count first, then conversions, and finally appreciation. Thus, enough money can be withdrawn for college by simply withdrawing contributions.