

Life + Money

Here's How to Help Your Grandkids Pay for College



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As a growing number of Baby Boomers start pondering their financial legacy, helping grandchildren (and their parents) cover the skyrocketing costs of college seems like a no-brainer.

Assisting with college costs is a big gift that benefits both younger generations at once, and it's more meaningful than simply writing a check or buying your grandchild some big-ticket item, like a car. "Paying for education is universally agreed upon as a valuable thing to do," says Roger Pine, a partner with Briaud Financial Advisors in College Station, Texas. "It's a great way to give, and everyone understands the values you're trying to convey."

Related: [How Boomers Are Boosting the Next Generations](http://www.thefiscaltimes.com/2015/12/02/Grandparent-Economy-How-Boomers-Are-Boosting-Next-Generations)

That's why nearly three-quarters of grandparents think it's important to help pay for their grandchildren's college, and more than half (53 percent) of those **surveyed by Fidelity** in 2014 said they were currently contributing or planning to do so. The survey found that grandparents expected to contribute a median \$25,000 to their grandchildren's college costs, with 35 percent expecting to provide \$50,000 or more.

That could make a serious dent in the cost of college for students. This year, the **published cost of tuition and fees** (<http://trends.collegeboard.org/sites/default/files/2015-trends-college-pricing-final-508.pdf>) cost \$17,123 for in-state students at public schools, and \$53,920 at private colleges. Last year, nearly 70 percent of new college graduates had financed part of their education, with an average debt load of \$28,950, according to **The Institute for College Access & Success** (<http://ticas.org/posd/map-state-data-2015>).

While helping grandchildren with college is a noble goal, Boomers shouldn't even consider it if doing so would put their own retirement security at risk. If you're in a position to afford it, read on to see how to most efficiently help your grandchildren cover college costs, and how to avoid the pitfalls that could trigger a tax bill for you or a lower financial aid package for them.

Related: [How to Pay for a Pricey Private School](http://www.thefiscaltimes.com/2015/05/03/How-Pay-Pricey-Private-School)

1. Start early and coordinate with your adult children. If you're planning on covering a significant portion of a grandchild's education, let their parents know about your intentions, including the specifics of how much you'll provide. While some grandparents want to make the gift a surprise, letting parents know early can relieve them of the burden of over-saving for school, which can make the rest of their financial planning easier.

The earlier that you start setting aside money for a child's college education the better. Money set aside at the birth of a child, or in the first few years of life, will have nearly 20 years to compound, making it much more valuable. "Time is your greatest asset in many cases," says Mark Kantrowitz, publisher and vice president of strategy at Cappex.com.

2. Keep 529s out of your name. When it comes to college savings, 529s are a great option because money contributed compounds tax-free and there are no taxes on withdrawals as long as they're used for qualified educational expenses. The way you set up the 529, however, can have consequences for the grandchild's aid eligibility.

That's because withdrawals from a parent account are considered parental assets, while withdrawals made from a grandparent's account are considered student assets and are weighted more heavily against a student when it comes to financial aid calculations. "We usually recommend that unless the grandparent has some problem with their own child being the owner, let them be the owner and then make gifts every year funding the account," says Tom Mingone.

Related: [Four 529 College Savings Traps to Avoid](http://www.thefiscaltimes.com/latestnews/2015/08/17/Four-529-college-savings-traps-avoid)

Putting money into your accounts controlled by your children does have a few drawbacks, though. You won't get any tax deductions on the contributions (the federal government doesn't give tax deductions for 529 contributions but many states do), and you will not be able to withdraw the funds if you need them for some reason. You probably wouldn't want to anyway since money in a 529 account is subject to a stiff tax penalty (regular income tax plus 10 percent on earnings).

You also won't have any control over what happens to the account if the child decides not to go to college or doesn't need all the money in it. The owners of the account will have the option of rolling over the money to pay for another family members' college expenses, letting it sit there for potential use for graduate school, or cashing it out.

3. Know the gift tax limits. This year you can put \$14,000 into a 529 account for your grandchild without triggering the gift tax, and couples can sock away \$28,000 per child and remain under the tax threshold. There's also a one-time option to front-load a 529 account with five years' worth of contributions — that's \$70,000 from an individual and \$140,000 from a couple — that you can contribute tax-free.

Related: [4 Ways to Reduce Your Student Loans](http://www.thefiscaltimes.com/2016/01/18/4-Ways-Reduce-Your-Student-Loans)

If you've got enough money to pay for tuition outright, there's one other way to get around gift taxes: Make a tuition payment directly to the school on your child's behalf. "Direct payments for education are excludable from the gifting limits," says New York CPA Fred Slater.

Such a payment would not count against your gift tax limits, but it would count against a student's financial aid eligibility in the next year, so this may not be the best method for a student who stands to get substantial aid. An option for helping out students who do get aid is to let them go through the aid process each year, and then pay tuition directly for the last year of school only. If you've got extra cash left over, use it to pay off your grandchild's loans at graduation.



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