529: An Unmatched Estate Planning Tool

The tax savings and flexibility of a 529 can make it an effective option in your estate plan.

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Ms. Cox began her professional career as an administrative team member for a nation-wide wealth management firm where she was responsible for monitoring and servicing client accounts. She most recently worked as a financial specialist at a large bank where she worked with her customers to identify and review their financial needs and goals, leveraging her experience and bank partners to deliver relevant solutions.

Ms. Cox earned her bachelor's degree in finance from Penn State University and is a Chartered Retirement Planning Counselor℠ (CRPC®). Currently, she is pursuing the CERTIFIED FINANCIAL PLANNER® designation. She also holds her Ohio life, health and variable annuity insurance license.

If your financial goals include saving for one or more college educations, then you are probably familiar with 529 plans. The savings plans, created in 1996 by Section 529 of the Internal Revenue Code, allow for tax-deferred growth on assets designated for college educations. The plans are operated by states and educational institutions, and are quite flexible: you can be an Ohio resident, buy a Pennsylvania plan and send your student to college in California.

But their flexibility goes beyond simple college savings. Consider this: a 529 plan is an unmatched estate-planning tool.

The primary goal of estate planning is to pass along assets in a way that reduces or eliminates potential estate taxes. A 529 not only satisfies that goal, it allows you to retain control of your assets as you determine how they will be distributed.

Compare the 529 to more traditional estate planning using an irrevocable trust:

A husband and wife with four grandchildren and a currently taxable estate create an irrevocable trust for each grandchild. Each year they contribute the maximum allowable tax-free gift of $28,000 per child to the trust, a total of $112,000 annually removed from their estate. A seemingly viable plan, but with some unseemly issues. For one, the trust, as it is named, is irrevocable. Once gifted, the assets are no longer in the control of the grandparents. If circumstances call for changes in how they want to distribute their assets, the funds are irretrievably earmarked with specific distribution rules and the beneficiaries in place. As well, the costs associated with trusts can be substantial, including attorneys' fees for drafting trust documents and ongoing trustee fees to manage the trust.

Alternatively, the grandparents choose an appropriate state-sponsored 529 plan and establish an account for each grandchild. One of the features of a 529 plan is the ability to "front-load" up to five years of gifts, allowing the grandparents to transfer $560,000 – the same $28,000 for each of the four grandkids – from their estate as they establish the plan. As well, the grandparents incur neither attorney fees nor trustee fees. And perhaps most importantly, they retain complete control over the account – distributions, The primary goal of estate planning is to pass along assets in a way that reduces or eliminates potential estate taxes.

beneficiaries, investment selection – so as circumstances change, the grandparents have the flexibility to make changes.

Estate planning is complicated, and every family has its own issues to address and objectives to consider. It is important to consider all estate planning options before determining the most suitable for you and your family. Working with a trusted advisor is a good place to start. HBKS Wealth Advisors has the experience and know-how to walk you through your options and work with your estate-planning attorney to coordinate the process and implement your plan.

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