



Your Money Financially Speaking

BY JANE BRYANT QUINN

CHIPPING IN FOR COLLEGE

When helping to pay for a grandchild's education, choose the right investment account—or just use cash

Do you want to help finance college for a grandchild? You can get special tax breaks by investing in certain accounts, which I'll get to in a moment. But don't forget plain old cash.

There's no paperwork with cash, other than writing a check. There's little or nothing to deal with at tax time. When tuition bills start arriving, you can give money to the parents to help defray their cost. If you give it after they file their financial aid form, it won't even show up as an asset that might reduce an aid award.

Cash doesn't require making commitments years in advance. When your grandchild reaches college age, you can assess your own needs and decide what you can afford to give. (Cash gifts to an individual not exceeding \$15,000 per year, or \$30,000 from a couple, don't require a gift-tax return.)

If you'd rather get some tax breaks and want to start a college fund far ahead of time, there are two main ways to go.

Using a state's 529 plan, you can invest money that grows tax-free and can be withdrawn tax-free for higher education. Your state might even give you a tax break for contributing to the account. You pick from a list of mutual funds, the most popular of which invest more in stocks when your grandchild is young, then shift to bonds

as college approaches. "But they switch too quickly," says Mark Kantrowitz, the publisher of SavingForCollege.com. For higher returns, he advises that you invest aggressive-

ly in stock funds until the child is 10, and only then start moving to bonds. Fees and expenses are lower if you open an account with a state's "direct-sold" plan, rather than one sold by a commissioned financial adviser.

Payments to a school from a grandparent's 529 can reduce student aid by 50 percent of the amount contributed. So you might consider putting the money into a parent-owned 529 instead. You may lose a state tax break, but only 5.64 percent of parental assets are counted when calculating student aid. You can also avoid affecting aid by making 529 payments or giving cash to your grandchild during the last two years of college. That's because the government's financial aid formula for a particular year is based on family finances from two years earlier. Money you chip in this fall for an entering freshman could reduce her aid in her junior year, but money you give for a junior won't count against aid offered in her junior or senior year. Find more info about using a 529 for grandkids at SavingForCollege.com/grandparents. For a list of plans sold by states, search online for "NerdWallet 529." Nearly all states and the District of Columbia have plans, and most states let you open an account even if you're not a resident.

Your other good option is a Roth IRA. If you're 50 or older, you can contribute up to \$7,000 from earnings this year. Withdrawals are tax-free as long as you've passed age 59½ and have had an account for

five years. You can withdraw the earnings on your contributions at a younger age to pay for college, but you'll owe taxes on the amount. For aid purposes, these contributions are treated like grandparent 529s. Most grandparents fall within the income limits on who can start Roths (for singles, it's \$122,000 for a full contribution; for married couples, \$193,000). You can use leftover money for tax-free income in retirement. Even so, color me old-fashioned. For my grandkids, I gave cash. ■

Personal finance expert Jane Bryant Quinn is the author of How to Make Your Money Last.



95%
of grandparents say it's important for their grandchildren to get a higher education.



21%
of grandparents say they spend money on their grandchildren for school or college tuition.



\$4,075
is the average amount those grandparents spend annually.