

Questions to Ask When Planning College Financing

(Accompanies Strategies for Financing a College Education practice management article by Delmar C. Gillette in the March 2006 *TAXPRO Monthly*.)

Here is a list of “Frequently Asked Questions” for which you may want to do some research. An accompanying bibliography (below) contains many references that were available at the time this article was written. The Internet seems to be the best place for current information; but you will need to be constantly alert to the freshness of the information.

- What is a §529 plan?
- Who can open an account?
- Do §529 plans have income limitations?
- Can an account owner withdraw the money without paying for college costs?
- Once an account is established, who controls the investments?
- Who can contribute to an account?
- What are the most common investment options offered by §529 plans?
- Can you change investment options once you have opened an account?
- Can a §529 plan be rolled over to another §529 plan?
- Can I contribute the maximum amount in more than one state?
- Can I invest for one beneficiary in more than one state’s plan?
- Why should I invest in a §529 plan when I can’t be sure that my child will attend a public university in my state?
- How will a §529 plan affect my child’s chances to qualify for financial aid?
- Can two people open an account for the same child?
- What if I need to tap the account?
- What kind of educational costs can the money be used for?
- What if my child doesn’t go to college nor has money left over?
- Can I switch options?
- Can I also fund a Coverdell Education Savings Account?

When fielding questions about any of the accumulation plans or credits, to best answer your client you will need answers from the client about “Which of the Following is Most Important to You?”:

- Maximizing total savings
- Maximizing tax savings
- Maximizing investment flexibility
- Maximizing parental control
- Maximizing financial aid eligibility

- Maximizing spending flexibility
- Minimizing estate taxes

Here are some additional questions to ask your client. As previously stated, “there is no one best plan.” As in life, most college savings plans are a compromise of likes and dislikes.

- How important is flexibility?
- Can you tolerate some principal fluctuation?
- Would it bother you to turn over these savings at age 18, 21, or 25?
- Is there a possibility your child would use the money for something other than education?
- Do you have your retirement savings under control?

Once you have answers to the above questions you are ready to refine the taxpayer’s objective.

- How old is the child?
- Where do you think the child will go to college?
 - Private vs. public
 - Local vs. distant
- How much have you saved so far?
- Do you expect to have the full cost of college saved in advance or will the child be relying on financial aid?
- What is your AGI?
- What is your taxable income?
- What state do you live in?
- What kind of student is your child (good grades or poor, athletic or couch potato, etc.)?

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