human investing

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Investing in Future Generations

Exciting news from the Human Investing office: In the year 2017 alone five babies will be born into the families of Human Investing (2 girls and 2 boys already, with 1 boy on his way)! For myself and the other new parents in our office, 2017 has already been a year of much joy, little sleep, 'dad jokes', cliché parenting sayings and a bunch of finance nerds trying to figure out how to care for their little ones and save for their college education. Here's what we came up with. First the cost –

ESTIMATED FUTURE COST OF COLLEGE *(IN-STATE TUITION, OREGON UNIVERSITIES)*	STARTING COLLEGE	1 YEAR OF COLLEGE	4 YEARS OF COLLEGE
CURRENT COLLEGE FRESHMAN	this year (2017)	$20,090	$80,360
CURRENT HIGH SCHOOL FRESHMAN	in 4 years	$24,420	$105,252
BEGINNING KINDERGARTEN	in 14 years	$39,777	$171,444
THE COST OF COLLEGE FOR THE HUMAN INVESTING KIDS BORN THIS YEAR	in 19 years	$50,766	$218,809

In recent years, the average rate of inflation in college costs has been about 5%.

Source: National average cost data © 2017 The College Board, "Trends in College Pricing 2016."

Parents like my wife and I and others in the office may have different goals and philosophies on how much we would like to cover for our child's education expenses - whether a dollar amount, like $50k, or a percent of the education expense. Whatever the philosophy, we understand the need to save. But what is the best vehicle to do so? Here are a few of the most common options and some important considerations to take into account when saving or choosing an account type:

- **529 Savings Plan**: 529 accounts allow you to set aside after-tax contributions that grow tax free. The balance can be used for qualified higher education expenses, such as tuition, room and board, and books. States may offer 529 plans to residents, often with tax breaks or additional incentives - check your state here.
- **Coverdell Education Savings Account (ESA)**: ESAs allow you to set aside after-tax contributions that grow tax free. Account value can be used for expenses not exclusive to college. Unlike 529 plans, there is flexibility to use ESAs for qualified education expenses from Kindergarten through Graduate School.

- **Roth IRA**: The Roth IRA can be used as a combination retirement account and educational savings vehicle. Your after-tax (Roth) contributions can be invested for retirement purposes and college expenses can be withdrawn with exemption to early withdrawal penalties. Additionally, the value of your Roth IRA will not hurt chances for financial aid eligibility as it is not considered assets on the Free Application for Federal Student Aid (FAFSA).
- **Uniform Gifts to Minors Act and Uniform Transfer to Minors Act (UGMA/UTMA)**: The original college savings account, UGMA/UTMA assets are transferred to the child's account and are invested on their behalf until he or she reaches age 18 – 21 (defined by state). At this time, the beneficiary can use dollars for whatever they wish. With a UGMA /UTMA you can realize $1,050 of gains tax-free per year. Note: UGMA/UTMA is in the child's ownership for FAFSA purposes.

	529 PLAN	COVERDELL ESA	ROTH IRA	UGMA/UTMA
HOW MUCH CAN BE INVESTED?	$310,000 in state of Oregon	$2,000 per beneficiary per year	$5,500 ($6,5000 for taxpayers age 50+)	No Limit
INCOME RESTRICTIONS	None	Ability to contribute phases out for incomes between $190,000 and $220,000 (joint filers) or $95,000 and $110,000 (single)	Must have taxable compensation; contribution limit phases out for incomes between $184,000 and $194,000 (joint filers) or $117,000 and $132,000 (single)	None
STATE TAX BENEFIT	Contributions to an Oregon 529 up to $2,330 by an individual or $4,660 by a married couple filing jointly (2017) are deductible in computing Oregon taxable income.	None	None	None
QUALIFIED EXPENSES	Tuition, fees, books, computers and related equipment, supplies, special needs; room and board.	Tuition, fees, books, supplies, equipment, special needs; room and board for minimum half-time students; additional categories of K-12 expenses	Tuition, fees, books, computers and related equipment, supplies, special needs; room and board.	No Restrictions
USE FOR NON-QUALIFYING EXPENSES	Withdrawn earnings subject to federal tax and 10% penalty	Withdrawn earnings subject to federal tax and 10% penalty	Taxable portion of withdrawal prior to age 59 1/2 also subject to 10% early withdrawal penalty	Funds must be used for benefit of the minor

* This data is provided by www.savingforcollege.com and is subject to change. The numbers provided reflect 2017 regulation and will fluctuate with time. Please contact a trusted tax professional to understand exact tax implications.

The consensus: If you are looking to maximize saving for college and want to make it a family affair (any one can contribute) then the 529 is the best option. If you are not sure about college for your child but would still like to save for their future, then other great options like a UGMA/UTMA may be beneficial. Want to talk about what type of account is best for you or share baby stories? Let's talk, Human Investing is here to help.