your money

FALL '09

Advice from the experts...

tuition programs

how they can benefit you

–Gerald M. Morello Jr.

With the rising costs of higher education, the burden of sending a child to a college or university is a greater concern for more and more people. In fact, the tuition rates for most Michigan colleges and universities have increased in excess of the rate of inflation. This means it is more expensive to get a college degree today, despite the fact you have less money to spend towards that education. Many of my estate planning clients have asked about college tuition savings programs, how they work, and if they are safe. I find that many people do not realize the significant federal and state tax incentives that are available when saving or paying for a child's higher education today, rather than waiting until the child is old enough to actually attend college. In Michigan, there are 529 college tuition programs that have significant traction (called a "529 plan" due to the federal Internal Revenue Code section that addresses them): the Michigan Education Savings Program ("MESP") and the Michigan Education Trust ("MET").

WHAT IS A 529 PLAN?

A 529 plan is an education savings plan operated by a state or educational institution designed to help families set aside funds for future college costs. There are currently two forms of 529 plans, and the State of Michigan has both: MESP operates like a savings account, while MET operates like a prepaid contract. The interest from 529 plans accrues on a tax free basis. Also, so long as the money is distributed for qualified educational expenses, the value of the account will not be taxed. Qualified educational expenses include tuition, room and board, and other necessary essentials.

MICHIGAN EDUCATION SAVINGS PLAN - MESP

MESP provides the opportunity for any individual (parent, grandparent, or even the future student) to open a qualified savings account to ensure that money for college will be available when a beneficiary is ready to attend. There is no annual limit on the amount that may be contributed. However, there is an overall maximum account balance limit of $235,000. Also, despite how much is contributed, only $5,000 can be deducted for state income tax purposes ($10,000 for joint filers). Furthermore, there are fees associated with the account, but they usually are very small. The account owner can choose what type of investment strategy is used, and can change the investment strategy whenever additional contributions are made. The account essentially works like a lockbox, without the lock. However, the money can be removed for purposes other than education, but will be subject to a 10% tax penalty.

MICHIGAN EDUCATION TRUST - MET

MET is another type of 529 plan offered directly from the State of Michigan, but operates very differently from MESP. An MET contract allows parents to prepay their child's college education of tomorrow, at today's prices. This happens by an individual purchasing an MET contract, rather than opening a savings account. The contract(s) can cover anywhere from one semester of college, to a full eight semesters of college. The full amount paid for an MET contract can be deducted from the purchaser's income for Michigan tax purposes. Also, an MET contract is transferable among family members, subject to a few restrictions. Furthermore, the purchaser of the MET contract retains control over the contract and its value. One drawback is that MET may not cover full costs at private or out of state universities. Lastly, if the beneficiary later decides not to attend a college or university, monies are refunded.

INDEPENDENT 529 PLANS

Independent 529 plans may also be purchased. However, the tax incentives for such plans may vary; therefore I always recommend that a client discuss his or her options with a qualified financial planner, such as Tony LaJeunesse from TL Financial Group, Inc., an expert on 529 plans who is also located in the Downriver area.

DO YOU NEED TO INVEST IN A 529 PLAN?

Only you and your financial advisor can determine the answer to this question. However, considering the recent changes in employment trends and the emerging global economy, along with the rising cost of higher education, the benefits and incentives that come from 529 plans should not be ignored. Remember that there are many options to ensure that you can pay for a college education, so make sure you are fully informed of what is right for you. ■

Gerald M. Morello, Jr. Esq. would like to graciously thank Rob Emmitt for his assistance in preparing this month's article for Downriver Profile Magazine.

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