

Ways to Save for Your Children



Below are the different ways to save for you children:

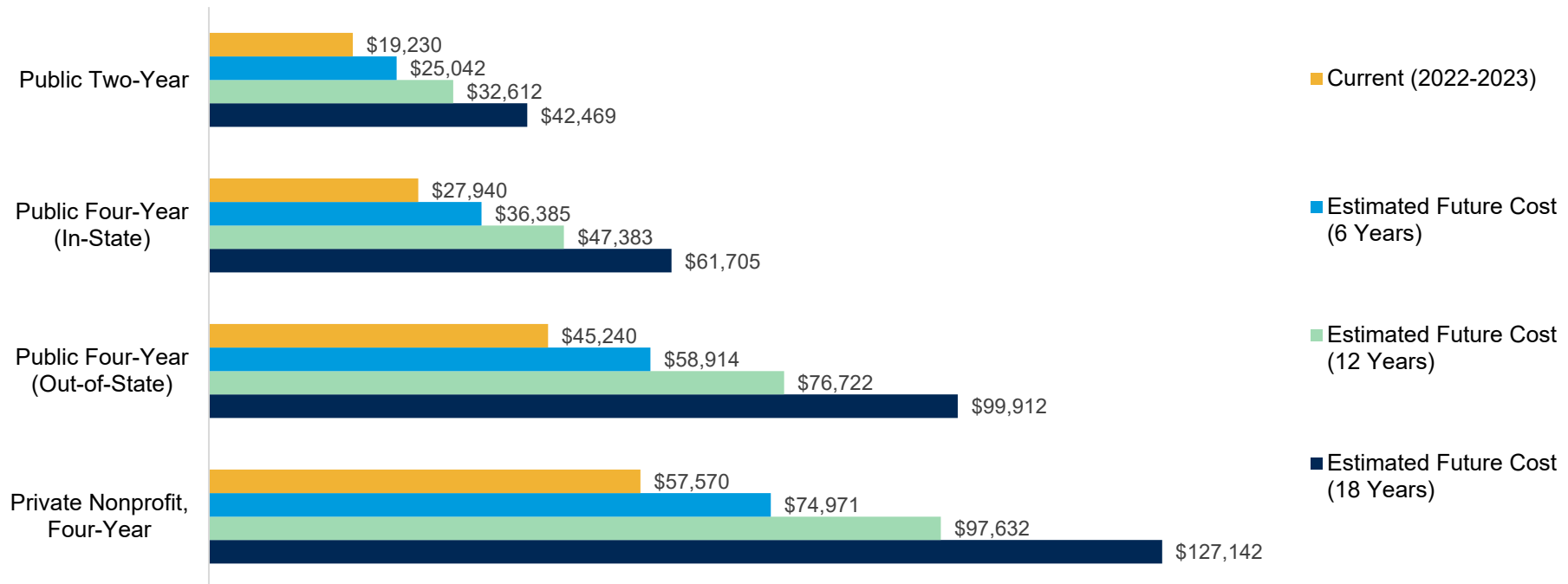
Education Planning	Gifting	Working
<p><u>529</u> 529's can be used to pay up to \$10,000/year per beneficiary for tuition at any public, private or religious elementary or secondary school.</p>	<p><u>Trust</u> Parents may control the distribution of their property during their lives or after using a trust to provide financial benefit to their children.</p>	<p><u>Checking Account</u> Open a checking account for your child when they first begin making money. Encourages budgeting and good financial habits.</p>
<p><u>UTMA</u> Investment account set up to benefit a minor but controlled by an adult custodian until the minor reaches their age of majority.</p>	<p><u>UTMA</u> Investment account set up to benefit a minor but controlled by an adult custodian until the minor reaches their age of majority.</p>	<p><u>UTMA</u> Investment account set up to benefit a minor but controlled by an adult custodian until the minor reaches their age of majority.</p>
		<p><u>Roth IRA</u> You pay taxes on money going into your account, and then all future withdrawals are tax free. A contribution can be made by a minor if they have earned income.</p>
		<p><u>Traditional IRA</u> Deduct contributions now and pay taxes on withdrawals later. Opening an IRA for your child provides them a head start on saving for retirement and financial lessons.</p>

Education Planning



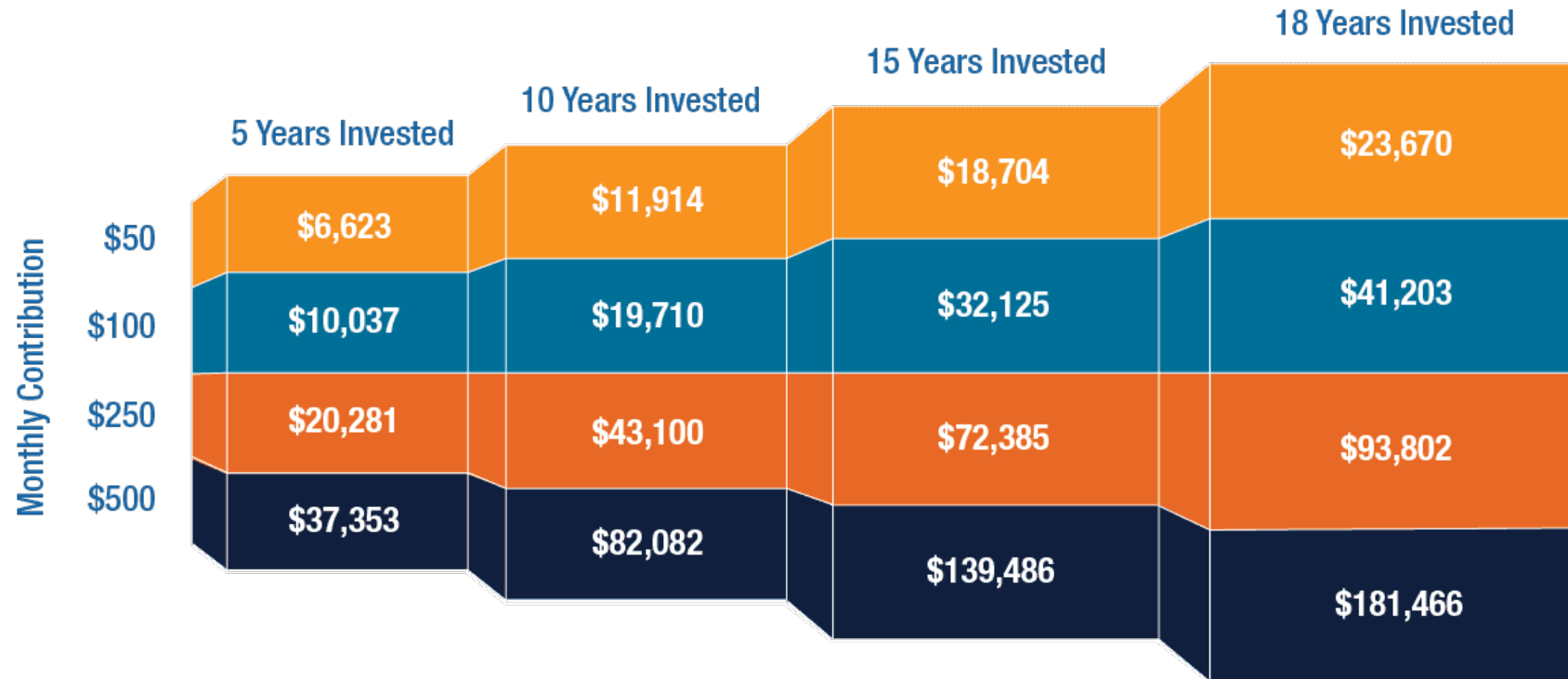
With college costs steadily rising, a four-year education has become an increasingly expensive proposition. Over the last 10 years, published tuition and fees and room and board (TFRB) expenses have increased two percent above inflation for public four-year institutions and six percent above inflation for private nonprofit four-year institutions.

Average Estimated Full-Time Undergraduate Expenses (2022-2023)



Current expenses via College Board's "Trends in College Pricing and Student Aid 2022" (October 2022)
 Calculations for estimated future college expenses assume a 4.5% annualized increase.

Saving for College & the Power of Compounding



** For illustrative purposes only. This hypothetical example illustrates the accumulation potential with a \$2,500 initial investment and a monthly contribution plan at a 5% projected average annual return. The above example is based on projections and does not reflect an actual investment in the Bright Start Direct-Sold College Savings Program. If fees were included, the returns would be lower. Actual results may differ considerably from the illustration above. These results are hypothetical and do not represent results earned by clients of Fiduciant Advisors.*

Brightstart.com: "How Much Do I Need"

Saving for College



Assumptions:

- Annual cost of college is \$50,000 per year
- Annual cost of college increases by 4.50 percent per year
- College savings (529 Plan, etc.) annualize at 6.00 percent per year
- Parent(s)/Guardian(s) wish to fully fund college education

Approximate Monthly Savings Required to Fund Future College Expenses

Years until College	\$0 Beginning Balance	\$10,000 Beginning Balance	\$25,000 Beginning Balance	\$50,000 Beginning Balance	\$75,000 Beginning Balance	\$100,000 Beginning Balance
18	\$1,140	\$1,064	\$951	\$761	\$572	\$382
17	\$1,197	\$1,118	\$1,001	\$805	\$609	\$413
16	\$1,260	\$1,179	\$1,057	\$854	\$651	\$448
15	\$1,331	\$1,247	\$1,120	\$909	\$698	\$487
14	\$1,412	\$1,324	\$1,192	\$971	\$751	\$531
13	\$1,505	\$1,413	\$1,274	\$1,043	\$812	\$581
12	\$1,614	\$1,516	\$1,370	\$1,126	\$882	\$638
11	\$1,742	\$1,638	\$1,483	\$1,224	\$964	\$705
10	\$1,895	\$1,784	\$1,618	\$1,340	\$1,063	\$785
9	\$2,082	\$1,962	\$1,782	\$1,482	\$1,182	\$882
8	\$2,316	\$2,184	\$1,987	\$1,659	\$1,330	\$1,001
7	\$2,615	\$2,469	\$2,250	\$1,885	\$1,520	\$1,154
6	\$3,014	\$2,848	\$2,600	\$2,186	\$1,771	\$1,357
5	\$3,572	\$3,379	\$3,089	\$2,606	\$2,122	\$1,639

For illustrative purposes only. Actual results may vary based on a variety of factors (annual performance of savings, annual college cost increases, etc.). Analysis assumes no taxes. These returns are hypothetical and do not represent returns earned by clients of Fiducient Advisors.



529 College Savings Plans



529 Plan – Facts/Basics

- Tax-free investing and distribution for qualified college education expenses, as well as distributions up to \$10,000 per child per year for K-12 expenses and cost of apprenticeship programs, and up to \$10,000 for qualified student loan repayments (lifetime limit).¹
- With limited exceptions, non-qualified withdrawals are taxed as ordinary income *plus* a 10% penalty on the earnings.¹
- Ability to change beneficiaries. The new beneficiary must be a family member (spouse, step-sibling, in-law, or cousin are eligible).
- Investment allocation can be changed up to twice per year for previously invested funds.
- No income limits for contributors. Special provision allows for up to five years of annual gift exclusions to be made within a single year (Increased to \$85,000 as an individual, \$170,000 as a couple for 2023).^{1,3}
- 49 states (all but Wyoming) and the District of Columbia offer a 529 plan⁵
- Over 30 states offer residents a state income tax deduction or credit for 529 contributions.²
 - Eight tax parity states offer taxpayers a deduction for contributions to any state's 529 plan²
 - Arizona, Arkansas, Kansas, Minnesota, Missouri, Montana, Ohio, and Pennsylvania
 - Five states currently have a state income tax, but do not offer a deduction for contributions: California, Hawaii, Kentucky, Maine and North Carolina²
- States typically offer income tax benefits to any taxpayer who contributes to a 529 plan.⁴
 - Nine states and the District of Columbia only allow the 529 plan account owner (or the owner's spouse) to claim a tax benefit: Iowa, Massachusetts, Missouri, Montana, Nebraska, New York, Rhode Island, Utah, Virginia

¹ Savingforcollege.com – “What is a 529 Plan?” (January 2023)

² Savingforcollege.com – “How Much is Your State's 529 Tax Deduction Really Worth?” (January 2023)

³ IRS – “What's New - Estate and Gift Tax”

⁴ Savingforcollege.com – “529 Plan Gifts May Be Deductible on State Income Tax Returns” (October 2020)

⁵ <https://thecollegeinvestor.com/529-plan-guide/wyoming/> - “Wyoming 529 Plan and College Savings Options”

529 Plans & Custodial Accounts (UGMA/UTMA)



529 College Savings Plans – What’s New for 2023

- SECURE Act 2.0 provides a new allowance of tax- and penalty-free rollovers from unused 529 funds directly to a Roth IRA, subject to certain provisions.¹
- FAFSA changes will benefit grandparent-owned 529 Plan accounts; effective October 1, 2023 (for the 2024-25 academic year), students will no longer be required to disclose cash distributions from grandparent-owned 529 Plans.²

Custodial Account (Uniform Gifts to Minors Act/Uniform Transfer to Minors Act)³

- Funds must be used for child’s benefit, but not necessarily for college
 - Cannot change beneficiary as with 529 Plans
- **High impact** on financial aid eligibility³
 - Counted as student’s asset versus plan owner’s asset as with 529 Plans
- Child assumes full control at age of majority (generally age 18 or 21)
- For tax year 2023, the first \$1,250 of your child's unearned income qualifies for the standard deduction and is therefore untaxed. The next \$1,250 is taxed at the child’s marginal rate. Unearned income that exceeds \$2,500 is taxed at the parent’s income tax rate.⁴

¹ Ed Slott & Company – “SECURE 2.0 Allows Rollovers of 529 Funds to Roth IRAs” (January 2023)

² Savingforcollege.com – “What to Know about the 529 Grandparent Loophole & New FAFSA” (December 2022)

³ Savingforcollege.com – “Are Custodial Accounts a Good Option for Parents Saving for College?” (May 2019)

⁴ The College Investor – “What Is The Kiddie Tax And How Does It Work?” (December 2022)

Morningstar 529 Plan Ratings (2022)



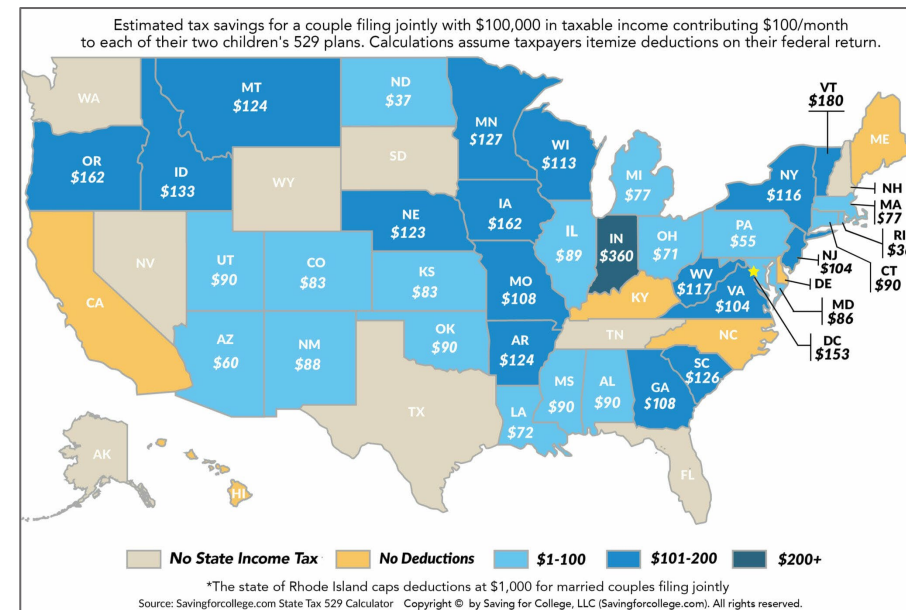
Gold-Rated Plans (2) ¹	State
Michigan Education Savings Program	MI
my529 Plan	UT

Silver-Rated Plans (12) ¹	State
T. Rowe Price College Savings Plan	AK
ScholarShare College Savings Plan	CA
Path2College 529 Plan	GA
Bright Start Direct-Sold College Savings	IL
MD Kasemeyer College Investment Plan	MD
Minnesota College Savings Plan	MN
MOST Missouri's 529 College Savings Plan	MO
The Vanguard 529 College Savings Plan	NV
College Advantage 529 Savings Plan	OH
Oregon College Savings Plan	OR
Pennsylvania 529 Investment Plan	PA
Edvest 529 Plan	WI



Individuals can contribute to any 529 plan (not limited to the resident state plan). If your resident state does not offer a meaningful tax deduction or tax credit for 529 plan contributions, consider a plan that has low fees and a broad range of investment options.

Websites such as Savingforcollege.com can be a helpful resource for comparing 529 plans.



Savingforcollege.com – "How Much is your State's 529 Tax Deduction Really Worth?" (Jan 2023)

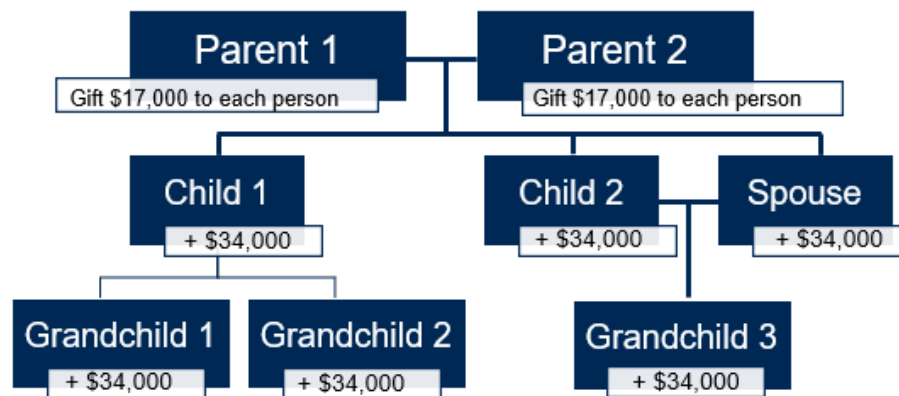
Gifting to Children



Individuals who are likely to one day have a taxable estate should consider annual exclusion gifts as a means to reduce the size of the taxable estate.

The current annual gift exclusion enables a donor to transfer up to \$17,000 per donee; gifts above \$17,000 are allowed but may require using a portion of one's lifetime gift tax exemption and may require filing a gift tax return. Consider consulting with an estate planning attorney on the proper titling of gifts and evaluate ideal savings/investing vehicles for the donee(s).

Additionally, tuition payments made directly to an educational institution and payments made directly to a healthcare provider for a person's medical care do not constitute gifts (and thus do not count toward the \$17,000 annual exclusion gift limit). Given the considerable expense often associated with private school or college, direct tuition payments can serve as a meaningful planning opportunity to reduce the size of a taxable estate.



Example:

Each donor can individually gift to each donee \$17,000 per year, which equates to up to \$34,000 gifted to each recipient annually (from a couple).

In this example, the parents (the first generation) are able to transfer \$238,000 tax-free each year to their heirs to reduce the size of their total estate, which may produce significant estate tax savings if annual exclusion gifts are made over a period of years.

Traditional IRA vs. Roth IRA



Review objectives and marginal income tax bracket to evaluate whether to contribute to a Traditional retirement account, a Roth retirement account or a combination of both.

	Traditional IRA ¹	Traditional 401(k)/403(b) ²	Roth IRA ¹	Roth 401(k)/403(b) ²
Tax Benefits	Tax-deferred growth		Tax-free growth and tax-free qualified withdrawals	
Tax Deduction	Contributions may be tax-deductible depending on AGI	Yes, for current year contributions	No, funded with after-tax contributions	
Taxation of Withdrawals	Taxed as ordinary income		Qualified withdrawals are tax-free	
Early Withdrawal Penalties	With limited exceptions, withdrawals prior to age 59½ result in a 10% penalty (in addition to the distribution being treated as ordinary income)		Contributions can be withdrawn penalty-free while earnings are taxable and may be subject to a 10% penalty	The earnings portion of a non-qualified distribution will be taxable and may be subject to a 10% penalty
Income Limits for Contributions	No, but deductibility is subject to income limits	None	Yes	None
Age Limits for Contributions	As of 2022, none	None	As of 2022, none	None
Eligibility to Contribute	Must have earned income	Actively employed	Must have earned income	Actively employed
Deadline to Contribute	April 15 of the following tax year	December 31	April 15 of the following tax year	December 31



Tax Diversification: Individuals may consider utilizing a combination of both Traditional and Roth retirement plan accounts as a 'tax hedge' given uncertainty over future income tax rates.

¹ Source: Vanguard Investor Resources – “Roth vs. Traditional IRAs: A Comparison”

² Source: Nerdwallet – “Roth 401(k) vs. 401(k): Which Is Best for You?” (January 2023)

How to Know Your Adult Child Needs an Advisor



From our experience working with multi-generational families, there are five common major life events where we see adult children benefiting from working with a financial advisor.

Increased Earnings

Tax returns, how much money to save, where to save, deferred compensation, stock ownership requirements, stock options, stock appreciation rights

Purchasing First Home

Down payment, mortgage, property taxes, homeowner's insurance

Updated Financial Plan & Education

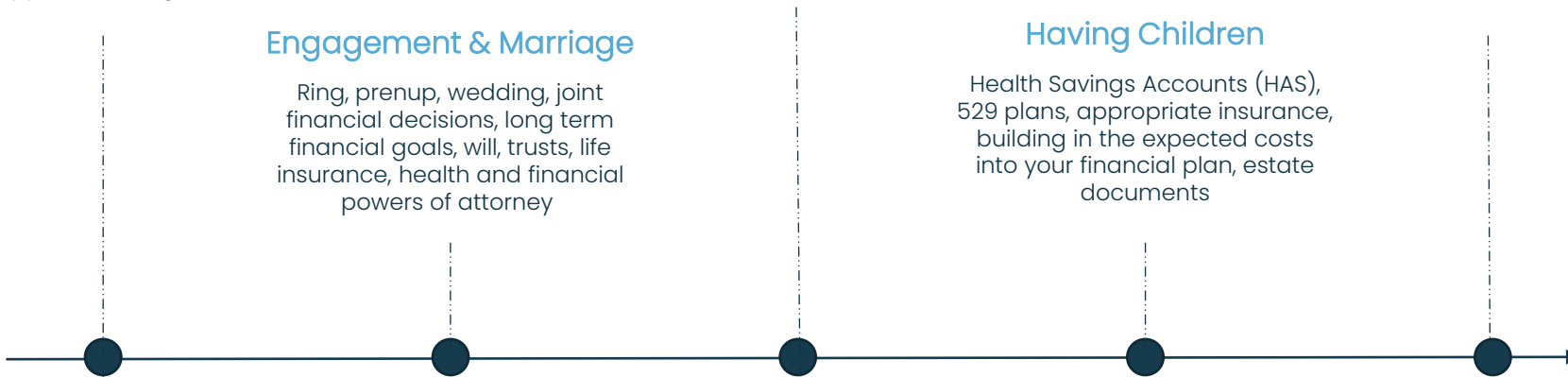
Update your plan, understand your parent's estate plan, make necessary changes to get in sync

Engagement & Marriage

Ring, prenup, wedding, joint financial decisions, long term financial goals, will, trusts, life insurance, health and financial powers of attorney

Having Children

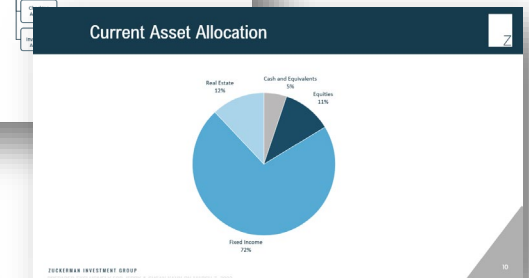
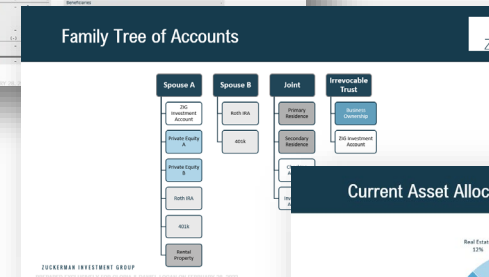
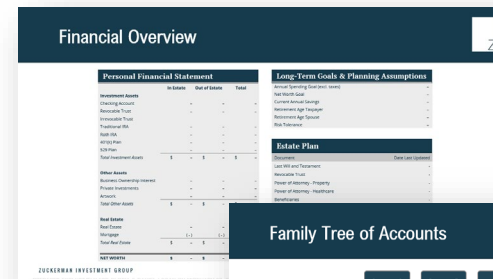
Health Savings Accounts (HAS), 529 plans, appropriate insurance, building in the expected costs into your financial plan, estate documents



If Your Adult Child is Ready, Here's What to do:



- 1 Send an email to connect us with your adult children
- 2 Our team will setup a meeting with them to go through our client discovery process; the goal of the meeting is to:
 - Locate and identify their assets
 - Create their balance sheet and understand what investments they currently have
- 3 From there, we will recommend a financial plan that includes an investment strategy and approach to enhance their overall financial wellness





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