HOW WILL YOU SAVE FOR HIGHER EDUCATION?

College costs are growing at a significant rate. Paying for a child's or grandchild's college education ***tomorrow*** requires forward thinking and planning ***today***.

How should parents or grandparents save for tomorrow? Let's examine two ways these adults can save for a child's college — education: a Section 529 Plan and another lesser-known alternative — permanent, participating Whole Life insurance.[2]

COMMON FEATURES/VEHICLE	SECTION 529 PLAN	INDIVIDUAL WHOLE LIFE INSURANCE (with the adult as the owner of the policy)
INCOME LIMITATIONS	None	None
MAXIMUM ANNUAL CONTRIBUTION FOR AN INDIVIDUAL ACCOUNT OWNER	Established by the plan	Based on policy design — substantial contribution potential
TAX TREATMENT OF CONTRIBUTIONS	After-tax[3]	After-tax
TAX TREATMENT OF ACCUMULATION	Tax-deferred	Tax-deferred
TAX TREATMENT OF EARNINGS[4]	Tax-free if used properly	At death: tax-free. During life: normally tax-free if structured properly
PROPER USE OF PROCEEDS	Colleges, universities, and graduate schools in the United States	Anywhere and/or for any reason
PENALTIES IF NOT USED FOR EDUCATION	Taxation and a 10% penalty withheld on earnings	None
OWNERSHIP OF ASSETS FOR FINANCIAL AID CONSIDERATIONS	Varies by state, but may affect college aid	Typically, the policyowner (but not the child, since the owner is the parent or grandparent in this scenario)
FUNDING UPON DEATH OF ACCOUNT OWNER OR POLICYOWNER	Any accumulated assets in account	The policy's designated death benefit (creating a "self-completing" plan)
FUNDING UPON DISABILITY OF ACCOUNT OR POLICYOWNER	Any accumulated assets in account	"Self completing" with addition of a Waiver of Premium Rider[5,6]
MARKET RISK	Subject to investment and market risks	None — Whole Life is uncorrelated to the financial markets
UNDERLYING INVESTMENT	Generally invest in securities	Not an investment, but a separate and distinct financial asset

FACT

The average tuition for in-state students at public four-year colleges is $20,090 and out of state is even higher at $35,370.[1]

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REASONS TO CONSIDER A SECTION 529 PLAN AS A COLLEGE FUNDING OPTION:

1. 529 plans offer tax-free investment growth for qualified educational expenses.
2. Some states may offer additional tax deductions or credits for in-state residents.
3. 529 plans do not have upper income limits.

KEY CONSIDERATIONS WHEN FUNDING A SECTION 529 PLAN

1. What if the child does not attend college? The growth on the money could become taxable and subject to potential penalties if it's withdrawn for other uses.[7]
2. The money in a 529 Plan is subject to loss due to investment and market risk.
3. 529 Plans are not "self completing," should a parent or grandparent die or become disabled prior to complete funding.
4. 529 Plans have funding limits (per beneficiary per person). For example, in 2017, the $14,000 annual federal gift tax exclusion is in place and will be indexed for inflation (although they can be super-funded in year one by contributing the first five years' worth of gifts in a lump sum).

WHAT'S YOUR RISK TOLERANCE WHEN FUNDING YOUR CHILD'S EDUCATION?

For many, that can be a difficult question to answer. Typically, because of the short time frame, it shouldn't be as aggressive as your retirement funding. And many just want to be sure the money will be there when the college finance department starts sending the bills.

TOP REASONS TO INCLUDE WHOLE LIFE INSURANCE AS A COLLEGE FUNDING OPTION:

1. The life insurance policy can become self completing in the event of a premature death or disability.
2. The gains within the policy are "locked in" versus being subject to investment market fluctuations.
3. Tax-favored access to cash throughout the policy-owner's life.
4. Eligibility for financial aid is typically not affected by the existence of a life policy.
5. The policyowner is in control of the assets instead of the child, as is the case in some other asset ownership saving options, such as UTMAs or UGMAs.
6. The policy's cash value can start building before your child is born.
7. Whole life insurance does not have to be designated to a single child's educational goal. It's also a flexible cash resource you can use for any other future financial objective.
8. Outside of the actual policy design, there are no contribution limit restrictions set by the IRS.
9. Unlike some education savings plans, there are no set income restrictions (except for insurable interest considerations in the underwriting process).

REMEMBER

Life insurance can be used in conjunction with other popular college savings options. And since the life policy has multiple uses, it may help you fund other long-term financial goals, such as retirement. As previously stated, the age of the child you are saving for will help drive how you use various financial instruments.

If you need help on how to reach higher education or any other type of long-term financial objective, please contact your local Guardian representative to see what makes sense for your situation.

[1] The College Board, Trends in College Pricing 2016.

[2] In addition to protection, Whole Life insurance can create a long-term accumulation product. Whole Life Insurance provides death benefit protection and guaranteed cash values for the whole of life as long as the required premiums are paid. Costs for these benefits are reflected in lower cash values in the early years of the policy. When a consumer uses the product for these purposes, they should have an adequate time horizon in order for the cash values to grow. The age of the child should be a consideration in the eventual savings strategy chosen Whole life guarantees are based on the claims paying ability of the insurance company.

[3] Contributions to 529 Plans are state-tax deductible in some states, although to get the nominal deduction, the state may require the investor to use that state's specific plan. Check with your state to determine availability.

[4] Guardian, its subsidiaries, agents, and employees do not provide tax, legal, or accounting advice. Consult your tax, legal, or accounting professional regarding your individual situation.

[5] Riders may incur an additional cost or premium. Riders may not be available in all states.

[6] Waiver of Premium riders, when added, for an additional premium, can create a policy that pays for itself when the insured has a qualifying disability (rider form 01-R2).

Please note: Past performance isn't indicative of future returns.

[7] Some states allow excess funds to be used in other ways. Please check with your state's plan for specifics.

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