



Back on Campus: Two Planning Issues for your College Student's Success

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Over the last few weeks, families around the country have participated in the back to college ritual. Dorm rooms have been outfitted with string lights and mini-fridges and Amazon packages have been delivered. With any luck, those "extra" screws in the IKEA box were, in fact, totally optional and late-night pizza runs are already showing up on parents' credit cards.

With these most essential back-to-school activities now out of the way, what else can Choreo clients do to ensure a smooth school year?

Using your 529 Plan Efficiently

You've diligently saved for years, investing in your child's 529 plan account for just this moment. Now that it's time to use this money, be sure to avoid some common pitfalls:

- **Be Prepared for Tax Reporting:** By early February of each year, you should receive from your 529 plan administrator a Form 1099-Q which will report distributions made from your child's 529 account during the prior calendar year. To avoid taxes and penalties on withdrawals, you'll need to be able to match these distributions against qualified higher education expenses paid in the same calendar year ("QHEEs").
- **Qualified Expenses and Recordkeeping:** QHEEs for college students generally include (subject to various rules) tuition, fees, books and supplies, computers, software, internet access, and room and board. Transportation, travel, and health insurance are not QHEEs. For annual tax reporting purposes, it is vital that you keep good records of all QHEEs. As a best practice, keep this documentation with your tax records in case the IRS asks you to verify amounts paid against 529 distributions.
- **Figuring in Other Aid:** If your college student receives or is expected to receive other aid, like tax-free scholarships or fellowships, these amounts will reduce QHEEs and the amount of eligible tax-free 529 plan distributions. If a scholarship is received after you've taken a 529 distribution, a special exception will allow you to avoid the 10% penalty tax on the distribution up to the amount of the scholarship (but regular income tax would be due on the earnings portion of the distribution).

- **K-12 Tuition Counts, Too:** Don't forget, since 2018 you can use 529 plan account funds for K-12 tuition (up to \$10,000 per year). Check with your tax advisor first since not all states treat these distributions the same as the IRS.
- **For Savers:** If you are more interested in saving than spending, consider "super-funding" a 529 account. Super-funding allows you to transfer up to 5X the gift tax annual exclusion (\$16,000 in 2022, or \$80,000 maximum on a per donor/donee basis) to a beneficiary's 529 account in a single year. For example, a married couple could contribute up to \$160,000 in 2022 to a single child or grandchild's 529 account and do the same for other children or grandchildren. Doing so requires a gift tax return to be filed and, to the extent of funding, utilizes available annual exemption capacity for the same beneficiary over the next 5 years.

This may be especially attractive currently given lower stock prices, especially if saving for younger children with a longer time horizon before the money will be needed for education expenses. If you decide to super-fund a 529 account, consider investing contributed money incrementally throughout the year rather than deploying a single, large lump sum into your selected investments. Dollar-cost averaging a large annual investment allocation in this way will help you to stay disciplined (and keep your sanity) in case of a market downturn.

Basic Estate Planning for your College Student

You may perceive that the college years are simply the next, more expensive phase of raising your child. But in the eyes of the law, an 18-year-old is an adult (minus the right to consume alcohol and rent a car). As a result, your parental authority fundamentally extinguishes when your child reaches 18.

A simple estate plan for your college-aged child will bridge this gap. Of course, your child must willingly sign these documents and grant you authority and access in emergency situations.

Consider talking to your child about executing the following documents to ensure that you continue to have some legal rights if the need arises since you'll be relied upon for wisdom, guidance, and of course...tuition.

1. **Power of Attorney for Healthcare:** Use this POA so that your child can appoint you as his or her healthcare agent in the case of an emergency. A well-drafted POA will also grant you access to otherwise protected healthcare information under HIPAA. This document will bridge the gap and avoid confusion if you are the first call in case of a child's medical emergency.
2. **Power of Attorney for Property:** Use this POA to have your child appoint you as his or her financial decision maker. In an emergency situation you'll be able to communicate with financial institutions and manage your child's separate financial accounts and credit cards.
3. **Will:** Even if your child has limited individual assets, it is still prudent to have a basic Will prepared naming you as Executor in case it ever becomes necessary.

4. **FERPA Waiver:** Under the Family Educational Rights and Privacy Act ("FERPA"), when your child begins attending college you no longer have access to transcript information (like grades and other substantive enrollment information). To grant this access, your child should sign and deliver a FERPA waiver to his or her university. Often, the university will have its own form available through the registrar's office. It is important to note that universities normally will not release this information to an agent under POA - so it is vital to have the FERPA waiver signed and delivered.

Your Choreo advisor can assist you with coordinating these documents with your trusted estate planning attorney. Choreo will also soon be rolling out an online legal software tool if you would like your Choreo advisor to assist you with implementation of simpler documents, like powers of attorney for your college student.

Please reach out to your Choreo advisor with any questions or to further discuss how Choreo can help make your financial life as smooth possible during your child's college years.

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