COLLEGE FINANCIAL PLANNING: MANAGING YOUR CHILD'S BAR OR BAT MITZVAH GIFTS

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Inside This Issue

It is important to realize the money that your child receives for his or her Mitzvah can affect financial aid calculations.

Money is often given in celebration of a Bar or Bat Mitzvah. In many circles, these gift totals can be significant. ***What should you do when your thirteen-year-old is gifted thousands of dollars?***

While the answers vary from family to family, most parents have ideas regarding how to use this money. In fact, many plan to apply these funds towards the cost of college for their children.

Planning for College

Parents today have a range of options regarding higher education financing. For many, financial aid is a critical piece of the education funding puzzle. Need-based financial aid eligibility and awards are primarily determined through the Free Application for Federal Student Aid (FAFSA) and (for some institutions) the College Scholarship Service (CSS) Profile.

FAFSA

The FAFSA, as it states in its title, is a Federal form which almost all post-secondary schools use. Upon completion, you will be provided with your Estimated Family Contribution (EFC). Basically, this figure represents the amount of money the government believes you can devote to your child's college education for a specific academic year.

Be warned, this figure does NOT, in any way, represent the amount of need-based financial aid you will receive. It is simply a guideline provided to the schools to which your child applies.

CSS Profile

While the CSS Profile is not utilized by all schools, many private colleges and universities do require its completion and submission for financial aid. Depending upon your circumstances, this may lead to much larger aid awards. This "questionnaire" asks for more specific and detailed financial information, a "deeper dive" into your family's financial position.

It is important to realize that the money your child receives for his or her Mitzvah can affect financial aid calculations. It goes without saying that every family situation is unique. In fact, some families, those blessed with considerable incomes and sizable financial assets, may not be terribly concerned with how this "incremental (in their opinion) money" may affect potential need-based financial aid and federal student loans. They simply would not quality for any aid at the onset.

However, many others will. Completing college applications and associated financial aid forms are only four or five years away for many thirteen-year olds. So, any decisions regarding these funds should take that into account.

It is critical to recognize that what is right for you and your family may be vastly different from your friends or relatives, even those in seemingly similar financial positions.

What People Do with Bar and Bat Mitzvah Gifts

As mentioned, many children receive a significant amount of money as gifts in celebration of their Mitzvahs. Often, parents establish bank or brokerage accounts (as either Uniform Gift to Minors Act, UGMA, or Uniform Transfer to Minors Act, UTMA) with these funds.

In each case, one parent is named as a custodian for the account, maintaining the child as the beneficiary (the rightful owner). The laws for each type of account vary by state, as does the child's age when the accounts transfer away from the custodial relationship (basically, when the child can control the money without parental oversight). If you have questions regarding this, contact a qualified attorney in your state.

The Impact of These Decisions

How you elect to invest your child's Mitzvah gifts can impact your financial aid award. Understanding how different types of accounts are treated during the financial aid process can help you make intelligent and informed decisions and avoid unpleasant surprises. It is critical to recognize that what is right for you and your family may be vastly different from your friends or relatives, even those in seemingly similar financial positions.

Parental Assets in the Form of Investments

The FAFSA (which determines need-based financial aid) considers asset value and income data from both the student and the parents. The calculations applied to these assets differ based upon both the type of asset and its ownership.

529 Plans

These college savings plans offer those who purchase them the opportunity to save, with tax free growth and income, for higher education. There are a considerable number of state specific plans available. Each has its own nuances.

Monies invested can be used to pay a host of qualified college expenses (including tuition and room and board). For many, they are a valuable investment and a wise way to fund a college education.

That said, 529 plans ARE considered assets when applying for college financial aid. And, the way these accounts are titled, or owned, can affect the extent to which they may impact need-based financial aid awards.

For example, plans owned by parents may reduce need-based financial aid awards at a rate between 2% and 5.6% (depending upon your family's financial situation) of the value of the 529. ***So, if the parents own a 529 valued at $50,000, the financial aid calculators will assume your EFC to be $1,000-$2,300 more, per year, than if that account did not exist.***

That said, 529 plans owned by grandparents are generally not reportable to FAFSA and do not impact financial aid awards. However, distributions from these accounts to pay college expenses may be regarded as income to the student and, as such, may affect subsequent aid awards.

UTMAs and UGMAs

Student-owned assets (accounts on which they are the beneficiary, like UTMAs and UGMAs) are generally counted against need-based financial aid awards at a rate between 20% and 25%. ***So, a $50,000 UTMA or UGMA account will generate an annual increase of an Expected Family Contribution (EFC) of between $10,000 and $12,500 for college.***

Other Parental Assets

As an aside, not all assets are reportable to FAFSA. These include retirement accounts like IRAs and 401(k)s, equity in a primary residence, annuity balances and the cash value in life insurance policies.

The Value of Strategic Financial Decisions

Bottom line, your account ownership strategy as well as your investment approach can impact the need-based financial aid your child may receive. If you are (or expect to be) in a position where your student may be eligible for need-based financial aid, it is wise to take steps to avoid the potential penalty of having certain assets (like Mitzvah gifts) calculated as student-owned.

Your ultimate plans for these funds will help determine your options. First, consider "paying down" these accounts prior to applying for financial aid.

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Distributions from UGMA/UTMA can be made for any direct expenses for the child named as the beneficiary. So, funds from these accounts can be used to pay for summer camp, private school, religious school, and sports or dance (to name a few). You can even use this money to help pay for an automobile (and your child's insurance premiums), should your son or daughter need one.

This may be a wise decision, assuming these expenses are forgone conclusions. In other words, if you were sending your child to private school regardless of being able to use money from their UGMA/UTMA, paying down those balances will likely increase the opportunity for eventual financial aid for college. In short, reducing the balances of these accounts will limit the influence student-owned assets have on potential need-based aid awards.

Your Next Steps

Clearly, a mitzvah is a cause for celebration and pride. It is an important milestone in the life of a Jewish child and should be regarded as such. So, take time to enjoy this very special occasion.

When life returns to "normal", it is wise to sit down, research and understand your options. Keep in mind that decisions you make today can and will affect the future. Knowledge is power.

Strive to understand all of your options so that you can make intelligent and strategic decisions. A little bit of planning goes a long way in positioning your family for the best chance to achieve its financial goals.

The Value of Assistance

College planning is challenging; so many things can affect it. Additionally, strategically saving for college is dependent upon a number of factors. Your age, the ages of your children, where you think they may want to go to school, your assets, and your retirement plans should all influence your decisions.

Don't start saving for college in a vacuum. It is critical to embark on the college financial planning process as a part of your overall family financial planning. A qualified professional financial advisor, one who offers a range of products and services, can provide valuable advice and counsel.

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