

How Grandparents Can Help Contribute To Their Grandchildren's Education

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Grandchildren represent the future. The grandparent/grandchild bond is extremely unique and one that is steeped in legacy, heritage and unconditional love. By sharing stories of the past, the bond between these 2 generations is solidified as the older generation looks to pass on their knowledge and life experiences with the newer generation.

When parenting is left to the actual parents, grandparents can benefit from the special time that they spend with their grandchildren. And, in many families, grandparents play a pivotal role in the caregiving as dual working families or single-parent households may rely on them as a much-needed resource. Many of today's grandparents take a very active role in the lives of their grandchildren. Those who have the financial means are also able to offer a safety net to families whose net worth may not be as substantial. One of the largest expenses in child rearing is paying for college. According to a fairly recent Fidelity Study, 72% of grandparents think it's important to help pay for their grandchildren's college and about 53% said they are currently contributing or are planning to do so.

Why would grandparents help? The answer is two-fold. One, college is so expensive. The average cost of college for a public university is about \$30,000 per year and a private university could cost a family over \$70,000 per year. Now multiply that number by 4 years of school and that number begins to look extremely steep. And for families with multiple children, the cost of secondary education could completely wipe out their life savings. Second, many grandparents realize the importance of studying and learning and, if they have the financial means, want to help jump-start their grandchildren's

education.

Here are 3 ways that grandparents if they desire, can contribute to their grandchildren's education:

1. **529 Plans**

These plans can be funded by the grandparents where the money grows tax-free and as long as it is spent on education, the money is not taxed when it is taken out. An additional benefit of the 529 account is that if the grandchild decides he or she wants to pursue another path in life, then the plan can be assigned to another grandchild or even a niece or nephew.

2. **UGMA/UTMA** – Uniform Gift to Minor's Act or the Uniform Transfer to Minor's Act

These are custodial accounts which are used to hold and protect assets for minors until they reach the age of 18 – 21 depending upon the state. A portion of the account, because assigned to a minor, will go untaxed while part of the account will be taxed at the child's rate and not the grandparent's rate.

3. **Pay student loans or pay tuition directly**

This is an option for many grandparents and is a very simple transaction. Funds are sent directly to the school which eliminates excess paperwork and opening up various accounts.

Since there are various tax implications in the above-mentioned options, it is often necessary to work with a financial planner or advisor to help develop the plan that works best for your family and your financial situation. In addition, some of the guidelines differ by state and therefore speaking with someone who is well versed in this arena may be well worth the investment. Grandparents play such a vital role within the family dynamics and helping their grandchildren achieve a higher education is just an added bonus for some families.

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