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# HIGHER EDUCATION ISSUE

## 529 College Savings Plan Expenses

### HOW TO PAY FOR QUALIFIED EDUCATION COSTS

It's that time of year when some of us start receiving tuition bills for our children's college education, and we thought we would give an overview of the expenses eligible for reimbursement from a 529 College Savings Plan. Withdrawals from a 529 College Savings Plan are tax-free if they are used for qualified expenses. These expenses include:

1. Tuition and fees
2. Room and board
3. Books and supplies, and any school-related special services
4. Computers, if they are used primarily by the beneficiary while enrolled in post-secondary education.

A few key things to keep in mind include:

1. You must deduct the benefit of any tax credit received from the qualifying expense that is being reimbursed from the 529 plan.
2. You can pay for off campus room and board but the expense must not exceed the amount charged by the school for room and board.
3. The expense and reimbursement from the 529 plan must happen in the same calendar year. Therefore, you cannot reimburse yourself for expenses incurred in the previous year.
4. You do not need to pay the school directly from the 529 plan, but you must keep records verifying the expense. ■

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# Empty Nest Syndrome

BY LIZ MCQUEEN, CRPC®

As a new mother, one piece of advice I received as a parent was to prepare my children to leave the nest, and that I was only their temporary caretaker. I raised my children with this in mind, so I thought I would be well prepared when my eldest went to college.

I was, and I wasn't.

When my son went to college, I cried in the car all of the way home. That evening, my husband and I went out to dinner to celebrate our wedding anniversary, and we both sat and cried at the restaurant – much to the other diners' amusement. The house felt quiet and empty, and for months I continued to buy way too much milk!

Eventually, life settled into a new routine, though having our daughter at home helped ease the transition of our son leaving for college. However, the years passed and soon it was time for our daughter to head off to college, making us officially "empty nesters." More tears were shed (and more amused diners) as my husband and I waved our youngest off on her way.

Surprisingly, it wasn't the terrible loss and the transition period I was told to expect, and in many ways, it was harder on my husband, who expressed regret over missed opportunities - time and involvement in the day to day lives of the kids. On the other hand, I had been looking forward to more freedom. Having been a stay-at-home mother for many years, I was excited to go back to work and explore new interests. After a few false starts, I now have a career I enjoy and two wonderful adult children. In many ways, it was a positive period of change rather than a time to be endured.

Like all changes, it takes time to adjust. Gradually, we got used to the ideas of food in the fridge and the house looking the same as "when we left it." There may no longer be a mountain of teenagers lying on my family room floor, but I now get to take my children and their friends out to dinner, forging deeper relationships with them as adults with their own ideas and opinions.

While you may or may not experience empty nest syndrome, I have found there are some steps you can take to make the transition easier.

Prepare both the kids and yourselves ahead of time and teach them how to do laundry and manage their finances. Discuss how often you expect them to check in and what your behavior expectations are of them when they are away from home.

Spend time together as a family and share meals together - they can have a big impact on your relationship with your children. Also, set aside time to spend with your spouse, so when the kids do leave the home, you already have a strong partnership to build upon.

Remind the kids that their home is still their home and don't rush out to turn their bedroom into your long awaited exercise room. It's important they still feel they have a home base as they transition into independent adults. Also, avoid making any big decisions for a while to allow everyone to adapt to the new "normal."

Book a vacation or trip with your spouse as something to look forward to after the "goodbyes" are complete. While you are at it, spend time adjusting (or creating anew) your game plan. Like a financial plan, we had a life plan which somehow came to an end when our youngest left home. It took us a couple of years and a few bottles of wine to create a new plan, but it is satisfying knowing we are both in agreement with our goals.

Finally, make a list of dreams and aspirations you want to pursue and enjoy coming up with ways to plan for some of those dreams. If you have been a stay-at-home parent, consider going back to work or start volunteering. Remember, your goal is not to replace your child with work or activities, but to enjoy your new freedom.

Anyway, they will be back before you know it! ■

# Grandparents and College Funding

Often a grandparent's best intentions can negatively affect a student's ability to qualify for much needed financial aid. When a grandparent chooses to help their grandchild with college expenses, they should keep in mind these three considerations for the Free Application for Federal Student Aid (FAFSA) application and the impact on the Expected Family Contribution (EFC):

1. If the dependent student or parent owns the 529 plan, it counts as a Parental Asset at 5.64% of the account balance, but distributions are not considered part of the EFC.
2. If the grandparent owns the 529 plan, none of the account balance affects the EFC. However, 50% of any distributions count towards the EFC (in excess of annual income allowances).
3. If the grandparent makes a direct payment to the school for the grandchild's tuition, it could reduce their aid dollar for dollar. This has the highest negative affect on financial aid.
4. Payments made by the grandparent directly to the school for education are not considered a gift.

## WHAT SHOULD A GRANDPARENT DO?

Consider waiting to disburse funds from a grandparent owned 529 plan until the final two years of the grandchild's college or graduate school. With the new "prior-prior year" (PPY) rules that take effect for the 2017-2018 school year, income from the 2015 tax year will be used to determine financial aid, instead of the 2016 tax year. This means any distributions or income for the student during the last two years of school do not affect their ability to qualify for financial aid.

## WHAT SHOULD A GRANDPARENT NOT DO?

According to The Smart Student Guide for Financial Aid, if a grandparent simply writes a check for tuition directly to the school, it can "potentially be treated as either a direct financial resource of the student (which can reduce needs-based aid on a dollar-for-dollar basis), or as a form of untaxed income of the child (which can reduce aid by

50% of the amount paid). Since both of these would be reflected in the subsequent financial aid determination, grandparents paying for tuition directly should wait until the later years of college, past the window for the last FAFSA filing, if qualifying for financial aid is a concern."

## WHAT TO DO WITH EXCESS 529 PLAN ACCUMULATIONS

1. Transfer to another beneficiary who is a member of your family. A member of the family is defined as:

- Son or daughter or descendant of son or daughter
- Stepson or stepdaughter
- Brother, sister, stepbrother, or stepsister
- Mother or father or parent of mother or father
- Stepmother or stepfather
- Son or daughter of brother or sister
- Brother or sister of mother or father
- Spouse of any individual listed above
- First cousin of beneficiary
- Brother-in-law, sister-in-law, son-in-law, daughter-in-law, father-in-law, or mother-in-law

2. Maintain the account under the current beneficiary and let assets accumulate. There is no age requirement for distribution or beneficiary change, so you could just maintain the account and transfer it at a later date. There would be gift tax consequences if the beneficiary change is to a generation younger than the current beneficiary. For example, if your child is the current beneficiary and you later change it to your grandchild, there would be a gift tax associated. There are ways to deal with this including a 5-year gift election or timing gifts to stay under the current \$14,000 per year annual exclusion.

3. Distribute to one of your children at their lower tax rate, though the earnings would be subject to tax and a 10% penalty. For example, the funds could be used to purchase a new home.

4. If your child receives a tax-free scholarship, then you may be able to distribute funds from the 529 plan up to the amount of scholarship without penalty, however you would still need to pay tax on any income. ■

# Navigating College Admissions

BY DEBORAH COSSEY, M.ED.

When speaking to a group of high school parents recently, I asked, "And how many colleges did you apply to in your senior year of high school?" A few said, "four or five," but the majority of the crowd indicated, "one or two" or "the closest college to my house." If you ask a group of high school seniors today the same question, you will hear anywhere from five to fifteen schools with all the applications, essays, transcripts, recommendations, test scores and scholarships that accompany them! And this year, a LOT is changing ... from financial aid forms and requirements to additional types of applications and essays - there is a lot to learn about and do in a short time.

The world of college admissions has changed dramatically in the last fifteen years, and with the average public school student receiving approximately 38 minutes of personal college counseling in four years, Independent Educational Consultants (IECs) now play a major role in helping students and families navigate the journey to college. According to a recent study by IECA (Independent Educational Consultants Association), over 15% of families are now consulting with an independent counselor. IECs work with all students, from those with barely a 2.0 GPA, to valedictorians, students with learning and attention difficulties, athletes, musicians, future engineers and teachers ... in fact, any student who would like to attend college or a gap year program.

As Tim Lee, Independent Educational Consultants Association (IECA) member and consultant in Sudbury, MA, states, "Employing the services of an educational consultant may be the best investment families can make. Tapping into the knowledge and expertise of a consultant who has extensive experience to guide families in making this important decision can make the difference between a really good match and a less than successful experience."

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The field of independent college counseling has been around since the 1970s, but is growing exponentially each year, according to Mark Sklarow, executive director of the IECA. Consultants often come from an educational background, but also from business, law, finance, and beyond, and usually possess a Master's degree or above. Three national organizations provide guidance, ethics, standards, and professional development for members: National Association for College Admission Counseling (NACAC), Higher Education Consultants Association (HECA), and Independent Educational Consultants Association (IECA).

## WHAT SERVICES DO INDEPENDENT EDUCATIONAL CONSULTANTS PROVIDE?

- **EDUCATIONAL PLANNING:** Helping students make smart choices about their high school curriculum with an eye towards college admissions.
- **PERSONALIZED COLLEGE PROFILE:** Reviewing a student's academic and co-curricular interests and activities as well as unique talents and strengths.
- **COLLEGE SELECTION:** Developing a college list with the student that focuses on "great matches" rather than "big names." Consultants are required to "pursue ongoing professional development through attendance at conferences, workshops and through visits to college and university campuses." This is a major benefit for students who can learn about schools throughout the US, Canada, and beyond from their IEC.

- **COLLEGE ENTRANCE EXAMS:** Providing information and answering questions about current tests and testing policies.
- **MAJOR AND CAREER SELECTION:** Providing and interpreting career surveys and inventories to help students learn more about their interests and strengths and match these with colleges that have appropriate programs.
- **FINANCIAL AID AND SCHOLARSHIPS:** Helping families navigate the worrisome area of college financing and pointing families to merit and need-based scholarship opportunities.
- **APPLICATION, ESSAYS, INTERVIEWS:** Assisting students with an organized and knowledgeable approach to the application process.
- **SPECIALIZED ASSISTANCE:** Assistance for students with learning differences, athletes, artists, musicians, actors, gap year programs and more!

### HOW DOES A FAMILY CHOOSE THE BEST IEC FOR THEIR STUDENT?

As HECA states in their website, "The college admissions consultant you choose should be a good match for your child's personality, have experience with students with similar admissions profiles, and be supportive of your child's college aspirations." Here are some factors to consider:

**EXPERIENCED:** How long has this consultant been in business? How many students does he/she work with each year? Where do these students matriculate?

**PROFESSIONAL AND ETHICAL:** To which professional associations does this counselor belong? How long has he/she been a member? When did he/she last attend a local or national conference?

**KNOWLEDGEABLE:** Does the counselor provide a list of colleges visited in the last few years? Has he or she attained any special credentials or certifications in the area of college counseling?

**ORGANIZED AND CLEAR:** Does this counselor have written or online materials which clearly explain his or her services?

When an IEC helps a student navigate the complex waters of college admission, everyone in the family benefits: the student receives professional, knowledgeable assistance and the parents can just be parents, not drill sergeants! As you or your clients approach the college admission process, consider talking with an IEC; they may be the best financial move you ever made! ■

## Washington State GET Program Update



At the end of June, The Washington State GET program notified its customers that the program is scheduled to reopen for new enrollments and unit purchases by July 2017. Previously, parents were not able to purchase additional units.

There will also be a new Washington State traditional 529 plan opening around the same time which will feature "low fees, a user-friendly experience, and flexible investment options." It is too early to tell if Soundmark will recommend this new 529 plan, but we will keep our clients informed as more information is released.

We still recommend that parents whose children are not currently enrolled in college, strongly consider rolling their GET units into a 529 plan such as the West Virginia or Utah 529 plans that feature low-cost Vanguard and Dimensional Fund Advisor options. ■