

The Sgroi Financial

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Planning for Today and Tomorrow

College Planning: The 529 Plan

It goes without saying that sending a child to college is a major undertaking. The decisions on where to go, private or public, what to take, where to live and more, are all extremely important.

Paying for it is a subject in and of itself. In fact most major colleges and universities have whole departments just to provide financial aid counseling and process the paperwork.

Higher education is expensive. We won't go into the projections on how much it will be to go to a private or public school "x" years from now. Suffice it to say that no matter what school a child attends or when, it will cost a substantial sum.

One statistic we do want to mention is this: those who graduate from a four year college earn, on average, twice that of those who graduate from high school only. So despite the cost of a college education, it is generally worthwhile. Surveys show that Americans understand this and that is why saving and investing for college is now considered as important as saving for retirement.

Unfortunately, the investment opportunities available for college saving are far fewer than those for retirement. But the increased importance placed on higher education by the public is creating a demand for better investment options. The new 529 Plans represent a great improvement and a real opportunity.

Like 401(k) or 403(b) plans, the "529" refers to the section of the Internal Revenue Code that establishes the plan and the rules under which it operates.

529 Plans can be started by anyone. The owner of the account names a beneficiary, the person whose education they would like to support. The owner can make deposits into the account of up to \$10,000 per year. (The owner of the account may make a contribution of up to \$50,000 but would not be able to contribute anything for the following four years.) The contributions made are considered gifts by the donor and deemed to be out of the estate for Estate Transfer Tax purposes. Furthermore, even though only one person may own a 529 Plan, other people, like a spouse, grandparent, aunt, uncle or friend may contribute to it.

Once in the plan, the contributions grow tax deferred. When they are withdrawn, provided they are used for

college education costs for the beneficiary, the gains and interest are taxed at the beneficiaries tax rate. In addition, it is the owner who decides how much is withdrawn and when. The owner also has the discretion to change the beneficiary, provided the new beneficiary is a direct family relation to the original beneficiary.

As an example, let's say Bill and Jane have two children, Timothy and Catie. Bill starts a 529 Plan and names Timothy as the beneficiary. He can deposit \$10,000 per year into the plan and it would grow tax deferred until it was withdrawn for Timothy's college education costs. Jane may deposit an additional \$10,000 into the account also. In addition, Tim's grandparents or anyone else may deposit money into the account. Bill and Jane can do the exact same thing for Catie.

Following our example further, Tim and Catie's grandparents could establish a 529 Plan themselves and name Tim or Catie as the beneficiary. The advantage being that they would control the asset.

Now let us say that Timothy is awarded a full athletic scholarship to Notre Dame and doesn't need the money for school. Well then Catie could be named as the beneficiary of the account and the money can be used for her education. If Bill and Jane's good fortune continues and Catie wins an academic scholarship to Stanford, then Bill and Jane have a number of options.

They could withdraw the money and only the earnings above these scholarships are subject to the 10% penalty tax. They could leave it in the account, letting it grow tax deferred, to be used later for graduate school expenses. Another option would be to leave the money in the account and when Timothy or Catie have kids of their own, those children could be named the beneficiary and the money could be used for their education.

As you can see, there are a lot of possibilities. For grandparents who want to help with the education of a grandchild's education and address some estate planning issues, yet still maintain control of the asset, these plans can be ideal. *continued next page*

College Planning: 529 Plans

Let us say that a couple has multiple children and each child has children of their own. The grandparents could establish an account for any of the grandchildren, with themselves as the owner. Each grandparent could deposit \$10,000 per year into each account. This money would no longer be part of their estate for estate tax purposes. Should the grandparent pass away before the money was used, they would name a successor owner, who would then control the account. If one of the grandchildren decided not to go to college or didn't need the money to do so, the money could then be used for one of their brothers or sisters or passed on to a child of their own. You can see how these plans can create a college fund that, done right, could continue for generations into the future while solving estate planning and college expense problems in the present.

There are certain other restrictions that need to be mentioned. Once a 529 Plan reaches a certain value, around \$230,000 per child cumulative, no further contributions may be made. Say a particular child has been named the beneficiary on accounts owned by his parents in addition to accounts owned by his

grandparents, when the combined value of all accounts reaches the limit, no further contributions can be made to any account. The accounts can of course continue to earn money from interest and appreciation.

There are a limited number of investment options available in a 529 Plan and once money is placed in one of the options, it must stay in it. Future contributions may be placed in different investments, but the existing monies must remain in their original investment.

Changes of beneficiary can be made to a direct family member only. So an account's beneficiary could not be changed from one person to a cousin or other extended family member.

Saving for college can be quite a task. Gifting assets as part of an estate plan requires the careful consideration of many factors. 529 Plans can provide a huge advantage in both endeavors. The possibilities are quite extensive and really very exciting. As always, we are studying these issues in order to help you achieve your financial goals. Please feel free to call with any questions or to ask about them when you come in for your next appointment.😊😊😊😊😊

Listen To "The Sgroi Financial Hour"

Heard Weekly on WWKB - 1520

Saturday Mornings from
9:00 to 10:00
803 - 0321

Call in with your financial planning questions
and join the fun.

A personal letter from Joe

Dear Friend,

Hello! It seems the days of this new year are passing more quickly than ever before. With the current bear market having become an unwelcome reality, many of you have been calling and we are very glad to hear from you. These are trying times for investors, us included. It's hard to watch account values go down. But for long term investors, this may be a great opportunity. And as I have said on so many occasions before, if you are not invested for the long term then you should not be invested in the stock market at all. I believe this market will eventually recover and for those who are involved in continuing contributions plans, like 401(k), TSAs or monthly systematic investment plans, you will actually benefit from a slow recovery. The longer it takes the more shares you will accumulate.

For the portions of a well diversified portfolio that should be in cash or other income producing investments, we have a wide array of high quality money market accounts, annuities, Government Bond Funds, CDs, Municipal Bonds or Real Estate Investment Trusts. Please also keep in mind that switching from a stock based mutual fund to an interest bearing account can, in most cases, be done with a phone call. Furthermore, if you own funds or stocks in non retirement accounts, this may be an opportunity to sell some of your investments that have appreciated in value and offset the taxable gains by also selling assets that have lost value. This takes careful planning, so please give us a call before you consider doing so.

All of this market turmoil has served to reinforce the need for us to meet regularly and work together. So if you have not been in for a while, please call and schedule an appointment for a complete update.

This issues main article deals with the exciting new 529 Plans for college savings. Investing for college is a major undertaking often times involving several generations from the same family. Unfortunately, there has really not been a great way to go about doing this and 529 Plans aren't perfect. But under the right circumstances, they can be terrific. So if you are investing toward a college education for children, grandchildren or loved ones, please give us a call and we can analyze which is best for your particular goals.

This past January, Leo Wells from Wells Real Estate was in town and spoke to a large gathering of you about several different investment opportunities. It was a fun and interesting night and I wanted to thank Leo for coming all the way from Atlanta to make the presentation. The Wells Real Estate Investment Trust is one of my personal favorites. It is designed to preserve capital while at the same time providing a high dividend yield as well as offering a great opportunity for appreciation without being invested in the stock market. It can be a great diversification tool for many of your portfolios.

*This year marks the **30th anniversary** of my firm and as I have said so many times before, I love my job and I will not be slowing down. In fact we are busier than ever and are continuously expanding. Our radio show is growing in popularity and my work on behalf of the community is more important than ever. The public golf course we are working on is making constant headway; if you would like to help on that project please give me a call. I want to thank you for your support and for all the people you've referred into our offices. We are here for you, during the tough times as well as the good times and always will be.*

Best Wishes,



Understanding Your 401(k)

By Jeffrey Hahn

401(k) Plans have grown in popularity tremendously over the last two decades. They are now the largest single asset and primary retirement plan for millions of Americans. One of our concerns is that these plans are often not understood to the degree they should be. Many times we find that employers human resource departments don't understand them either! As part of the full service financial planning offered to you, we want to make sure that we understand your plan and can advise you on it. So when you come to see us, please bring a copy of your plan information with you.

Companies frequently modify their plans or adopt new ones. If your company is considering changes to it's plan or would like a review of the existing plan, please give us a call. We can help. We currently manage a number of these type of plans and like to think we do a good job of it. Retirement plans come in all shapes and sizes. They are very important. So please keep us informed and keep us in mind.

403(B) Corner

By: John Clouden



Over the last several months the stock market has looked very gloomy. We have seen the share price on most of our mutual funds slashed and with that, the values of our accounts. Many of our more aggressive clients have now seen one full year of negative returns. Quarterly statements are either in hand or on the way and it is emotionally hard to continue to put more of your hard earned money into an investment that continues to lose. At the risk of sounding like a broken record, **What a great opportunity to buy!** The ability to purchase additional shares with every paycheck is one of the biggest advantages to a 403(b).

We believe very strongly that the people who continue to look at the long term and not get caught up in the emotion will look back at this time and be very happy they continued investing in their TSAs.

Remember, your purchasing power has risen greatly. In some cases investors are buying twice as many shares as they were purchasing last year at this time. Try to look at the positive of this, rather than the negative. The more shares owned of a quality mutual fund will, likely, be to your benefit years from now.

I know that no one can predict what will happen in the future or that history is no indication of what will happen, but it is our opinion that investors that keep the discipline will reap the rewards in the years to come.

Recipe for Success

SANDY'S COLOSSAL CARROT CAKE

Mix together 2 cups of sifted flour, 2 teaspoons baking powder, 1 1/2 teaspoons of baking soda, 1 1/2 teaspoons of salt and 2 teaspoons of ground cinnamon. Add 2 cups of sugar, a cup of oil and 4 eggs—mix well. Add 2 cups grated raw carrots, 1 (8 1/2 oz.) can crushed pineapples (drained), 1/2 cup chopped nuts and 3 1/2 oz. flaked coconut—mix well. Pour into 3, 9 inch round layer cake pans (greased & floured). Bake in preheated 350 degree oven for 30-35 minutes (cool thoroughly)

SANDY'S CREAM CHEESE FROSTING

Combine: 1 cup of butter, 2 (8 oz.) packages of cream cheese, 2 teaspoons of vanilla. Cream well, gradually add a 2 pound package of confectioners sugar (8 cups), beat well (add a small amount of milk if necessary to help mixture spread well. Enjoy!!!!

They Said It

Some quotes heard recently:

“Wall Street is the only place where they hang out a ‘Sale’ sign and everybody runs the other way.”
Bob Stovall, NYU Professor

“Your emotions are often the best ‘reverse indicator’ of what you should be doing in the stock market.”
John Hindelong, Analyst for Dillon Read

“Charlie (Partner Charlie Munger) and I never have an opinion on the market because it wouldn't be any good and it might interfere with the opinions we have that are good”
Warren Buffet

(If you hear a good one send it in.)