

WANT TO MAKE SURE KIDS CAN ATTEND COLLEGE? USE WHOLE LIFE INSURANCE

January 11, 2016 by Christopher P. Hill

As college costs continue to rise, so does the importance of having a college degree. According to studies by The College Board, those with college degrees earn 74 percent more than high school graduates and experience higher job satisfaction and lower unemployment.

For parents like me, these costs can be sizeable. In the aforementioned studies from 2011, the cost of one year at a public university averaged more than \$20,000 while a year at a private school exceeded \$28,000.

For decades now, financial professionals and families have focused on utilizing the 529 College Savings Plan (529 Plan) as the most preferred and popular way to save for college. Although each state's 529 Plan varies with regards to the investments options, in my home state of Virginia, the mutual fund investment family of choice is American Funds.

What is a 529 Plan?

The following definition and breakdown was taken directly from American Funds website:

“Named after Section 529 of the Internal Revenue Code, 529 savings plans provide a tax-advantaged way to save for qualified higher education expenses. These plans are generally sponsored by individual states, while plan assets are professionally managed by independent investment firms or state government agencies.”

529 Plan Features and Benefits:

- **Save for anyone:** With a 529 Plan, investors can save for anyone — their child or grandchild, niece or nephew, friend or even them self.
- **Tax advantages:** Earnings in 529 accounts can grow free from federal tax, and withdrawals for qualified higher education expenses are free from federal tax, and some states also allow for a deduction (or credit against) contributions.
- **Contribution limits:** Investors can contribute up to \$14,000 (\$28,000 for married couples) annually without gift-tax consequences. Under a special election, you can invest up to \$70,000 (\$140,000 for married couples) at one time by accelerating five years' worth of investments.
- **Income limits:** There are no income limits, so investors can contribute no matter how much they earn.
- **Investment flexibility and options:** Though plans are administered by individual states, investors can choose among many types of investment options, regardless of where they live. These investment options can also be changed, but only at certain number times and dates on an annual basis.
- **Control:** The investor, as the account owner, rather than the beneficiary, maintains control of account assets and determines the timing and amount of distributions.

- **Beneficiary Options:** Investors can change beneficiaries, without penalty, provided the new beneficiary is a member of the previous beneficiary's family.

My College Savings Plan is Whole Life Insurance?

Although rarely discussed as the ideal college savings plan, a solid case can be made for whole life insurance as a far better option. Wait a minute. Did I just say that whole life insurance is a better college savings plan than a 529 Plan? Yes I certainly did.

Far too many financial professionals, families and investors get caught up in focusing on the name or title of their plans and investments. For example, it is traditionally common, popular and acceptable for a retiree to mention that their retirement savings plan is a 401(k) or an IRA, but not so much to say a variable annuity. Likewise, it is traditionally common, popular and acceptable for parents and grandparents to say their college savings plan is a 529 Plan, but not so much to say whole life insurance policy.

Rather than focus on the name of the college savings plan, let's focus on the facts, features and benefits (as compared to those aforementioned):

Whole Life Insurance Features and Benefits:

Save for anyone: With a 529 Plan, investors can save for anyone — their child or grandchild, niece or nephew, friend or even themselves.

Tax advantages: Cash value earnings accumulate on a tax-deferred basis and, if managed properly, can be also be withdrawn on a tax-free basis.

Contributions limits: Similar to 529 plans, whole life insurance has contribution limits, particularly within the first 7 years. However, not only can whole life limits be structured to exceed the 529 plan limits, but they are also not limited to the \$350,000 lifetime limit.

Income Limits: Just like 529 plans, there are no income limits, so investors can contribute no matter how much they earn.

Investment Flexibility and Options: Although whole life insurance policies cannot offer investment upside potential, they do offer no downside investment risk. For many investors, safety and guarantees are far more attractive, particularly when they are saving for a specific time frame and goal (such as retirement or college savings). The cash value in whole life policies provide contractually guaranteed interest rates that are very competitive, can also offer additional annual dividends each, as well as offer peace of mind via no downside risk.

Control: The investor, as the account owner, rather than the beneficiary, maintains full control of whole life cash value and determines the timing and amount of distributions.

Beneficiary Options: Similar to a 529 plan, investors can change the whole life insurance beneficiaries without penalty, at any time, and for any reason. However, unlike the family restrictions of a 529 plan, whole life insurance allows you to change the beneficiary to any person, institution, and/or charity, as well as choose as many beneficiaries to receive whatever percentage they deem appropriate.

Other things to note

If you withdraw money from your 529 college savings plan account for purposes other than higher education, your earnings will be subject to federal income tax and possibly a 10 percent federal tax penalty.

Your 529 college savings plan holdings could impact your beneficiary's ability to qualify for grants and student loans.

Contact me for details.