BELL INVESTMENT ADVISORS
MAKING A GOOD LIFE HAPPEN®

The Opening Bell

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Providing for Your Children and Others with a 529 Plan

by Forrest Bell, CFP®, President, Financial Planner, and Senior Investment Advisor

The three biggest financial commitments that most people will make in their lifetimes are buying a home, raising children, and retiring. Of the three, the cost of raising children might be the most surprising. While the cost of a home is easily found on websites such as Zillow.com, the cost of raising children is hidden within the monthly family budget, which makes the cumulative cost even harder to appreciate. Government data, however, has shed some light on this.

Data released in 2018, for example, calculated that the average cost to raise a child in the United States was $233,610 – and that's just until the child reaches 18. Those in the higher-income range specified by the government – more than $107,400 in gross household income – spend an average of $372,210 raising a child. Notably, these numbers don't include the cost of college, which Savingforcollege.com estimates will be $323,900 for a four-year private college by 2033. Fortunately, there are tools to help prepare for this cost, and one of the best is a 529 plan.

A 529 plan is similar to a Roth IRA except the 529 plan is specifically designed for education expenses. The positive effect on taxes happens gradually as investments in the account grow: as long as distributions are used for qualified education expenses, you don't have to pay taxes on what comes out. Hearing this often prompts people to ask about the definition of "qualified education expenses"; they worry that the definition is narrow, but in our experience it's not. The following education expenses qualify:

Tax-advantaged growth isn't the only appeal of 529 plans.
— Forrest Bell, CFP®

- Tuition and fees
- Books
- Computers technology, related equipment and internet access
- Special needs equipment
- Room and board if the student is enrolled at least half-time (on- or off-campus)

Tax-advantaged growth isn't the only appeal of 529 plans. These accounts can reduce the financial strain of having multiple children in college at once. They also increase the financial flexibility of families that have variable income: Parents with variable income may unexpectedly find themselves unable to pay for all education costs using their earned income alone. The savings from a 529 plan can help make up the remaining costs. Additionally, saving money for education can be motivating in the same way as saving for retirement is. It's rewarding to know there is a plan in place to pay for something you care about and to track your progress toward your goal. As with most goals, starting sooner rather than later helps – and not just because of compound interest and the tax-advantaged growth. It is generally easier for families to tolerate the adjustment of saving a little extra each month than it is to make a big, sudden adjustment to their spending when expenses such as college tuition emerge.

MORE COVERAGE INSIDE

Here are some common questions our clients ask about 529 plans:

Are there penalties if I withdraw money from a 529 plan and don't use it for education expenses?

Yes. Distributions from a 529 plan for non-education-related expenses are penalized, but the penalties are not terrible. Remember, taxes are already paid on the money going into a 529 plan, so all that gets taxed is earnings. The earnings on non-qualified distributions are subject to a 10% penalty and income tax.

What if my child's college education costs end up being less than what I put into my 529 plan?

Our first advice is to wait, because 529 plans

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Providing for Your Children and Others with a 529 Plan

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can be used for graduate school expenses too. It's also possible to change the beneficiary of a 529 plan to any of the following family members:

- Children,
- Grandchildren,
- Stepchildren,
- Siblings and their children,
- Parents and step-parents,
- In-laws,
- Spouses of the preceding people,
- And a child's first cousin.

If an older child doesn't need all of the funds in the 529 plan, you can reassign a younger child as the beneficiary so he or she can use the funds. If none of your children need the funds, you can change the beneficiary to another family member.

If I already have an UTMA (Uniform Transfer to Minors Act) account for education expenses, should I just keep funding that?

Maybe not. UTMAs are subject to the "kiddie tax", which the IRS instituted to prevent parents from funding UTMAs for tax-avoidance purposes alone. UTMAs generally become the property of the beneficiary when she or he reaches the age of 18 to 21, but some parents consider that to be too young for someone to possess a lot of money with no restrictions on how to spend it. With some planning, it is possible to convert an UTMA into a 529 plan, which avoids giving over such an account to a child too early. However, when a 529 is created through such a conversion, the assets cannot be reassigned to another person if the original beneficiary does not use all of the assets in the account.

Our 529 Plan Services

When we open a 529 plan for a client, we also commit to proper oversight of the account, which includes administering a contribution plan, monitoring the investments, and coordinating the distributions.

There are various ways to contribute to a 529 plan. Some families like to fund it once per year up to the annual gift tax exclusion, which is currently $15,000 per person, per beneficiary. Other families make automatic monthly contributions instead. Clients coming off of liquidity events can "superfund" their 529 plan(s). Superfunding allows the contribution of five years' worth of maximum gift exclusions all at once. For example, in 2019 two

parents or two grandparents could superfund each child's 529 with up to $150K. While superfunding means no additional contributions can be made over the next five years, all the growth that occurs in that span is tax-advantaged.

We also adjust the investments within a 529 plan up to twice per year as the time horizon to the education goal shrinks. As the beneficiary ages, we shift investments away from stocks and toward bonds. By the time a child enters college, bonds should play a large role in how the funds are invested.

Finally, we coordinate the distributions from the 529 plans themselves. This can occur in various ways. Some parents like to pay tuition with a credit card for the points and then pay off the balance with a distribution from the 529 plan. We can also distribute funds directly to the school. Lastly, we can make the payment to the student. No matter who receives the 529 funds, it's imperative that the recipient retain receipts that show the distributions were used for qualified expenses.

Though economists and researchers often try to quantify it, the value of an education goes beyond the dollars put in or dollars earned afterward. Education is also an experience, one that helps us form an idea of who we are and what we want to become. Planning ahead for this experience with a 529 plan can make paying for college easier for both you and your student. If you have a child, grandchild, godchild, niece or nephew, or any other young person whose education you'd like to support but you haven't started yet, ask us about setting up a 529 plan. We manage them for our clients free of charge. ■

What Will Make Up the Content of Your Days During Retirement?

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The question of, "What you are going to do when you are retired?" is one that begs the deeper questions we seem to want to resist: Who are you? What do you care about? What are your gifts and talents? What do you love to do? Who do you want to be with?

> ***The question of, "What you are going to do when you are retired?" is one that begs the deeper questions we seem to want to resist.***
>
> — Bonnie Bell, MA, MDiv.

I would recommend that at the very least you try buying a journal and taking some time to answer these self-reflective questions for yourself as best you can. Talk them over with the people who know you best. Get more help than that if you need it. But if you are eventually able to fill the content of your retirement days with the activities and people you love; by using your own gifts, talents and skills for something worthy or good; and by using more of your time to help address values and causes you deeply care about, you are well on your way to retirement days filled with content you might actually begin to love. ■

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When Can I Quit My Job?

by Jim Bell, CFP®, Founder and Chief Investment Officer

Financial Planning answers many significant life questions. For example: How much do I need to save for my daughter's education? Can I afford to buy a home? When can I retire?

In my 27 years as a Certified Financial Planner™ (CFP®), the answers to those questions and others produce highly emotional and strategic impacts. Knowing the date when you can actually quit your job – with grounded certainty – lowers anxiety about retirement in general. You can see an actual date on the calendar, and even if that date is out 5 years or more, it creates a peaceful context in which to consider the retirement process.

Do I Need to Work Longer, or Work Part-Time After Retirement?

Another aspect of the question may be, "What if I cut back to part-time work during the retirement years? What difference will that make in my retirement income? Or, "What if I just work longer than I want to because it helps so much financially?"

On May 13, 2019, Liz Weston, CFP®, a columnist for *NerdWallet,* wrote that for households saving 9% of their salary over 30 years starting at age 36, the University of Michigan's Health and Retirement Study determined that:

- working three to six months longer was equivalent to saving an additional 1% for 30 years
- working just one extra month was like saving an additional 1% for 10 years before retirement
- delaying the start of retirement from age 62 to age 66 could raise a person's annual, sustainable standard of living in retirement by 33%.

The University of Michigan's Health and Retirement Study, which follows

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— Jim Bell, CFP®

thousands of people over the age of 50, announced: "Working longer has the biggest positive impact on a household's standard of living in retirement." Public policy professor Sita Slavov, of George Mason University, concludes that working longer is a positive message for people who have not saved enough for retirement, but it should not be taken as an excuse for younger people not learning to save regularly throughout their careers.

When Should I Start Social Security?

Delaying Social Security checks until age 70 and continuing to contribute to retirement accounts are also big factors in producing a successful retirement. Starting Social Security at age 62, the earliest age at which you can claim retirement benefits, permanently subjects you to receiving a smaller (perhaps inadequate) check. By waiting until age 70, a recipient's check could be as much as 76% larger.

How Do I Avoid Regret with My Retirement Choices?

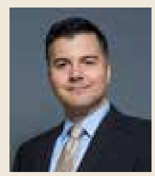
Developing a financial plan with a CFP® professional clears up all the above checkpoints. It could be that you do *not* need to work longer in order to achieve your goals, based on the assets you have already saved. Or, maybe cutting back to part-time for three years is the perfect solution.

While building a financial plan before you set your retirement date gives you the best opportunity to create the retirement you want, a significant portion of our financial planning work is for clients who have already retired. Sometimes we come to realize with them that they are not on track to have the retirement they expected, and it's true that sometimes working more years could have made the difference. However, a financial plan is still a powerful guide even after your retirement date, and we use financial plans to help clients stay on track. Often, this means helping them put equity in their home to work, or helping them sort through expenses to make sure their budget is allocated towards the things that are most valuable to them, and reducing the rest.

Everyone's retirement will be different, and the choices and steps to get you there will be unique to you as well. A financial plan is designed to give you peace and confidence, whether it reveals that you're already where you need to be, or if it gives you clear answers on how to get there. If you don't have a financial plan already, it's time to give us a call. ■

NEW TEAM MEMBER SPOTLIGHT:

RYAN KELLEY, CFA®, PORTFOLIO MANAGER



In April, we welcomed Ryan to the Bell Investment Advisors team. With nine years of prior Financial Services experience, he serves as a Portfolio Manager responsible for reviewing the firm's investment choices, programs, and allocations. Ryan enjoys analyzing investments and financial markets, as well as learning about new philosophies of investing. Away from work, Ryan is an enthusiastic fisherman. Most recently, he caught a 100-pound marlin near Cabo San Lucas, Mexico.

Bell Sponsors Symphony Finale

On May 10th, Bell was delighted to cap off our 12th year as sponsors of the Oakland Symphony by supporting the 2018-2019 season finale, a performance of the music from West Side Story. Forrest Bell welcomed the audience alongside the symphony's Executive Director, Dr. Mieko Hatano.

What Will Make Up the Content of Your Days During Retirement?

by Bonnie Bell, MA, MDiv., Principal, and Director of Career/Life Coaching

Depending on how close you are to your planned retirement date, the above question will be either frighteningly urgent, or so far in the distance that you won't be able to focus on it for any length of time at all. But what I have noticed most about this question now that I am in semi-retirement myself, is that most people pay a lot more attention to how much money they will need in retirement than what they actually will be doing. And most people have a very hard time with the transition, so that should be expected. But the quality of your time during retirement deserves some serious attention – and I have some ideas that could help.

As I mentioned in my Opening Bell articles in January and April, I am very happy about how the content of my own partial retirement is taking shape. I am not saying the transition has been easy, but honestly, I've never heard from a soul who says it was. There's always an adjustment and some serious thinking taking place.

My favorite aspect of retirement so far is discovering pockets of actual free time here and there in the midst of my formerly over-committed days. I love that feeling! I also love taking long walks in Rockridge and Elmwood in the Oakland/Berkeley neighborhoods near where we live. I love being able to go to the gym more often, and spending more time with good friends. As much as I love reading, I still don't like it during the day, unless I'm taking a book to lunch at a cafe, which I've always loved to do. Daytime is when we extroverts are out in the world seeing people, having conversations, and doing work in the world. It's hard for me to stay home when it's daylight outside.

I still love coaching, of course, so am happy to have former clients seeking me out here and there. Jane Micallef, as you probably know by now, is the new career/life coach at Bell (jmicallef@bellinvest.com) who is taking on new Coaching clients at Bell. I am also helping put together a Financial Literacy class at Catholic Charities in Oakland, for people who need improved financial skills, and I am helping put together a group at St. Mary's College in Moraga for people who are thinking about retirement. I love all those things.

But in the June 17, 2019 issue of the *Wall Street Journal*, Carol Hymowitz, a recent retiree from a long career in journalism, writes about her own experience in facing the "empty" content of her own new days in retirement. The headline of her article is, "Looking for a Road Map for Retirement? Good Luck." She describes not knowing what to do for a long while and being bombarded with random advice from close friends, not-so-close friends, and complete strangers – some of whom she actually met while waiting in line at the Social Security office! The advice ranged from the ridiculous to the sublime, e.g., *Enjoy spending weeks on your couch in your pajamas reading novels,* or the ever-favorite, *Pursue your dreams*, which is not as sublime as it seems because most people don't even know what their passions are, let alone how to pursue them or make money at them. . .

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