

# You're A Grandparent.



## Congratulations

Being a grandparent can be a wonderful experience. You can take great pride as your grandchildren grow and mature. As they make the journey from cribs to college dorms, your grandchildren will face many challenges and in some instances, they'll have to go it alone. However, there are a number of ways that you can help make their lives better. You've helped your own children, and now you have the opportunity to help a new generation. Let's take a look at some of the financial burdens that lie ahead and discuss some ways that you can lend a hand.

### Mounting Costs

Grandparents often dream about the day when they can attend their grandchildren's college graduations, dance at their weddings, or visit their new homes. All of these goals are very worthwhile, but each has a price tag attached to it. With the costs of higher education skyrocketing, your grandchildren can use all the assistance they can get. According to the College Board's 2009 study, it will cost today's students more than \$35,000 a year to attend a four-year private college. Wedding expenses can also be exorbitant. According to the most recent "Real Weddings Survey" conducted by The Knot, Inc., the average cost of a wedding is nearly \$28,000. Despite the current housing slump, the median cost of a home in 2009 was approximately \$172,500, according to the National Association of Realtors. Keep in mind all of these costs are in today's dollars. Years down the road when your grandchildren are ready for these events, the costs are likely to be considerably higher.

### School Aid

A college education can fill your grandchildren with wisdom, enhance their lives and offer the potential of a better career and higher income. In fact, according

to the College Board, college graduates make 60% more than high school graduates. Over the course of a lifetime, the gap in earnings potential between a high school diploma and a bachelor's degree is more than \$800,000. With college costs so high, multigenerational sharing of expenses is now common. You can give your grandchildren many gifts, but assisting with education expenses may be the most worthwhile gift you can give. How can you help? Let's take a look at some options:

**Pay it now** – For school-age grandchildren, one way you can help is to send a check directly to the educational institution. That way, you provide immediate assistance as well as ensure that the money is used only for educational expenses. The key disadvantage is that grandparents don't enjoy any tax savings through this direct approach.

**Pay it forward** – If your grandchildren have some years to go before college, you can put money aside for them through tax-advantaged vehicles, such as:

**Education Savings Accounts (ESAs)\*** – These accounts offer tax-deferred growth and tax-free

withdrawals for qualified educational expenses, such as tuition, books, etc. A key feature of ESAs is that they're not just for college. Funds can be withdrawn tax-free to pay for qualified expenses at any level – primary, high school, college and graduate. ESAs also offer a wide range of investment options, making them an attractive choice for many grandparents who want to build a fund for their grandchildren's education.

**529 Plans\*\*** – These state-authorized investment vehicles have no income limits and offer high contribution limits, tax-deferred accumulation and tax-free withdrawals for qualified higher education expenses. In some states, contributions are deductible from state income taxes. The rules governing such plans are determined by the state in which your grandchild lives, so it's best to check the plan for details.

\* Non-qualified withdrawals are subject to federal and state income tax and a 10% penalty.

\*\* 529 Plans may be subject to administrative and management fees. If you invest in a 529 Plan outside of your state of residence, you may lose any state tax benefits associated with a Plan offered by your state of residence. Distributions that exceed education expenses will be taxable to the beneficiary and subject to a 10% penalty tax. In addition, nonqualified withdrawals are subject to federal/state income taxes as well as a 10% tax penalty. Pursuant to the Economic Growth and Tax Relief Reconciliation Act of 2001, qualified expenses are free from federal income tax.

compliments of:



The Price of Dreams		
Cost	Purpose	Comments
\$35,636	College	Average annual total charges, including tuition, fees, room and board at four-year private colleges according to the College Board's 2009-10 survey.
\$27,882	Wedding	Average cost of a wedding in the U.S., not including the honeymoon, according to a recent survey by The Knot, Inc.
\$172,500	Home	Median cost of a home in the U.S. in 2009, according to the National Association of Realtors.

## Building Your Legacy

Many grandparents seeking to leave a legacy to their heirs turn to life insurance. Life insurance allows grandparents to multiply their generosity. Upon the death of an insured person, the policy's proceeds are paid to the beneficiaries, such as grandchildren. In most instances, these life insurance proceeds pass to named beneficiaries free from federal income tax. Your grandchildren could then use this legacy to defray the costs of paying for a wedding, funding a college education or helping with a down payment on a home. In some instances (e.g., through the use of a trust and proper structuring of the ownership and beneficiaries), life insurance proceeds can be shielded from estate taxes. You should consult your estate-tax planning professional for more information.

## The Benefits of Gifting

You can help your grandchildren – and yourself – through gifting. You can help reduce the size of your estate, and thereby reduce your estate tax bill, by giving gifts during your lifetime. Currently, the annual gift tax exclusion allows you to give away up to \$13,000 tax-free per year, per recipient. If you're married, you and your spouse may be able to shelter up to \$26,000 from the gift tax under current law,

according to the IRS. For example, if you make a \$13,000 gift to a grandchild's 529 Plan, in most cases that \$13,000 is removed from your estate, and your grandchild will benefit from the potential of tax-deferred growth. This information is general in nature. You are encouraged to discuss specifics with your estate-planning professional or tax adviser.

## We Can Help

You've worked hard, sacrificed and raised a family. Now you want to help subsequent generations enjoy worthwhile opportunities and experiences, but you aren't sure about the best way to do so. Well, you don't have to go it alone. Your First Investors Financial Services Representative can show you a variety of options and discuss the strengths and weaknesses of each one. Contact your representative today.

Neither First Investors nor its representatives provide legal, tax, or estate-planning services. Clients should contact their personal tax and legal advisers for any advice about estate planning or gifting.

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## Grandparenting By The Numbers

<b>6.2 million</b>	The number of grandparents whose grandchildren under 18 live with them.
<b>2.5 million</b>	The number of grandparents responsible for the basic needs (food, shelter, clothing) of one or more grandchildren who live with them.
<b>1.5 million</b>	The number of grandparents who are in the workforce and also responsible for the basic needs of grandchildren

Source: U.S. Census Bureau

**NOW?**  
**WHAT**

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## Financial Services With A Personal Touch

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