Sara Finkelstein, RFC®, RSSA®
Registered Financial Consultant
Registered Social Security Analyst

Signature Advisory Group

4801 Linton Blvd., Suite #11A-520, Delray Beach, FL 33445
Cell: 561-302-5760
Email: Sara@SignatureAdvisoryGroup.com

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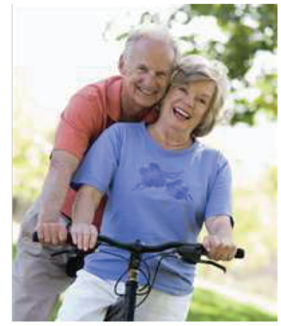

OCTOBER 2024

Grandparents: The 529 Plan Mistake

It is no secret that college costs rise every year and generationally we are saving less and less. This created a problem that was "resolved" by the creation of the 529 plan. A 529 plan is a tax-advantaged savings plan designed to encourage saving for future college costs. 529 plans, legally known as “qualified tuition plans,” are sponsored by states, state agencies, or educational institutions and are authorized by Section 529 of the Internal Revenue Code.

Enter the grandparents. According to a 2024 survey by Fidelity Investments, 62 percent of grandparents were saving or planned to start saving for grandchildren's college expenses. A whopping 71 percent of those surveyed said that if asked, they would likely help with college costs in lieu of other gifts.

Many financial advisors encourage clients to open 529 college savings plans for grandchildren. Investments in 529 plans are free of federal income taxes until money is withdrawn for qualified educational spending.

While many cash-strapped parents appreciate the assistance from grandparents in financing their children's education, families should be aware of a potential pitfall to grandparent-owned 529 accounts. While yes, A 529 account owned by a grandparent is not reported on the Free Application for Federal Student Aid form (FAFSA).

...Continued on top of page 2

The #1 Mistake People Make Trying To Avoid Probate?

First, Why Do People Want To Avoid Probate? Most people want to avoid probate for two reasons. First, because assets are frozen and not available to heirs during the year or more it takes for probate to be completed. Remember, probate is the process of validating a will and is designed to give creditors time to get paid and relatives time to challenge the will. The more challenges, the greater the delays.

Second, probate can be very expensive. Attorneys can charge up to 5% of the value of the estate.

Note: You can reduce or avoid the attorney fees by appointing a family member to serve as executor of your will. They can always hire an attorney, if needed. This could save your heirs (estate) tens of thousands of dollars in legal fees.

How Do Most People Avoid Probate? The easiest and most common way people avoid probate is by putting assets in their children’s names. While this does avoid probate, it can create other very costly problems.

Example; A widowed mother owns a home worth $200,000, that she would like her son to inherit. When her husband died 10 years ago, she went through the probate process. She would like her son to avoid the hassles and costs of probate when she dies. So she decides to put her son’s name on the deed. By doing so, the son will indeed avoid probate. However, by titling the home in the son’s name she has probably created a current gift tax liability.

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Interesting Facts:

-The ancient Saxons called October “Wintirfyllith” because it had the first full moon of the winter.

- The last week of October is the only time of the entire year when all 4 major American sports have games at the same time (MLB, NHL, NFL, & NBA)

-The Hummingbird is the only bird that we know that can fly backwards.

-If you are right handed, you will tend to chew food on your right side. If you are left handed, you likely to chew food on your left side.

-Men’s shirts have the buttons on the right while women’s shirts have the buttons on the left

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FAFSA is filed yearly, and helps determine a college student's eligibility for federal financial aid. In contrast with the parent-owned 529 account, which includes 5.6 percent of the value deemed part of the expected family contribution.

However a different problem arises when funds from a grandparent-owned account are distributed for a grandchild's education expenses. At that point, the funds are considered student-owned, and reduce the following year's financial aid award by 20 percent. It's worth noting: The grandparent's ownership of the 529 account does not affect the grandchild's financial aid eligibility. It is only when the money is distributed that it is considered the grandchild's income.

The key to paying for college is all in the planning process. You cannot afford to leave things to chance, as that is how mistakes are made, and the cost could be your child's education. Additionally, there are other college planning tools out there besides the 529 plan that offer tax advantaged savings. However, unlike the 529 plan, you can receive the benefits not only tax free, but also as unreported income, and it is hidden from FAFSA. What would that mean to you and your family? How much better off will you and your aspiring student be?

To see how this applies to you, or for more information; call my office today!

The #1 Mistake People Make Trying To Avoid Probate?

(or estate tax problems at her death) Depending when and if the gift is caught. (You are generally only allowed to gift $10,000 annually to each person)

Unfortunately, she has also created a capital gains tax problem for her son.

Let's look at what can happen; Thirty years ago, the mother & father bought the home for $40,000. When the mother dies, because the son's name is now on the deed, the IRS will consider him as an owner, not as an heir. If he decides to sell the home right away, he will have to pay capital gains on $160,000 of profits. That's $32,000 or more, which is a huge amount to pay just to avoid estate taxes. It will be even more as the home appreciates in value in later years.

More Concerns; Jointly owned property, it is legally exposed and attachable by the creditors of each the owners. If any of the owners are sued, go through a divorce, or they have an income tax problem, the asset can be seized to satisfy a legal judgment against that owner.

What's The Best Way to Avoid Probate? Generally, the best way to avoid probate is to establish a revocable living trust, naming yourself as trustee and your heirs as beneficiaries. Because the trust is revocable, you can put assets into the trust and take them back out at any time during your lifetime. And because the assets are owned by the trust, and not by you, your estate avoids probate. When you die, your assets pass directly to the trust's beneficiaries (your heirs).

To set up a trust, meet with an attorney who specializes in estate planning.

Halloween Safety Tips...

Costume Tips:
-When selecting a costume, make sure it is the right size to prevent trips and falls.

-Be wary of accessories as they may be encumbering, or a trip hazard.

-Decorate costumes or bags with reflective tape or stickers and, if possible, choose light colors.

On The Trail Tips:
-Have kids carry glow sticks or flashlights to help them see and be seen by drivers.

-Children under 12 should trick-or-treat and cross streets with an adult. Cross the street at corners, using traffic signals and crosswalks.

-Teach children to make eye contact with drivers before crossing in front of them.

-Always walk on sidewalks or paths. If there are no sidewalks, walk facing traffic as far to the left as possible.

-Make sure your children know to never enter a car or home for a treat.

-Establish a time for them to be home and/or have them carry a cell phone for quick communication.