Focus on Financial Fitness

Maintaining Your Financial Health

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Qualified Charitable Distributions: Using Your IRA to Give from the Heart

The Tax Cuts and Jobs Act roughly doubled the standard deduction ($12,200 for single filers and $24,400 for married taxpayers filing jointly in 2019) and indexed it for inflation through 2025. As a result, far fewer taxpayers will itemize deductions on their tax returns, and some people may be disappointed that they no longer benefit from writing off their donations.

If you are 70½ or older, you can use a qualified charitable distribution (QCD) to donate from your IRA and get a tax break, whether you itemize or not. Not coincidentally, this is the same age you must begin taking annual required minimum distributions (RMDs), which are normally taxed as ordinary income, or face a 50% penalty on the amount that should have been withdrawn.

QCDs satisfy all or part of any RMDs that you would otherwise have to take from your IRA. Better yet, QCDs are excluded from your income, so they help lower your adjusted gross income (AGI) as well.

How QCDs work

The IRA custodian must issue a check made out to a qualified public charity (not a private foundation, donor-advised fund, or supporting organization). In some cases, the IRA custodian may provide a checkbook from which you can write checks to chosen charities. Be aware that any check you write will count as a QCD for the year in which it is cashed by the charity, whereas a check from the custodian counts for the year in which it is issued.

You can take an RMD any time during the year you turn 70½, but you must wait until after you are 70½ to make a QCD. The QCD exclusion is limited to $100,000 per year. If you're married, your spouse can also contribute up to $100,000 from his or her IRA. You cannot deduct a QCD as a charitable contribution on your federal income tax return — that would be double-dipping.

A QCD must be an otherwise taxable distribution from your IRA. If you've made nondeductible contributions, then each distribution normally carries with it a pro-rata amount of taxable and nontaxable dollars. With QCDs, the pro-rata rule is ignored, and taxable dollars are treated as distributed first.

Tax perks for givers

If you no longer itemize, you could reduce your tax bill by donating with QCDs from your IRA instead of writing checks from your standard checking account. And if you still itemize, QCDs might prove more valuable than tax deductions. That's because they can help address tax issues that might be triggered by income from RMDs.

For example, an itemized deduction reduces your taxable income by the amount of the charitable gift, but it does not reduce your adjusted gross income. This is a key distinction because the 3.8% tax on net investment income, Medicare premium costs, taxes on Social Security benefits, and some tax credits are based on AGI.

Also, charitable giving can typically be deducted only if it is less than 60% of your adjusted gross income. But with QCDs, you may be able to give more than 60% of your AGI and exclude the entire amount (up to the $100,000 cap) from your taxable income.

Time for a rollover?

Qualified charitable distributions are available from traditional IRAs, Roth IRAs (with taxable amounts), and inactive SIMPLE or SEP IRAs, but they are not allowed from employer retirement plans such as 401(k)s and 403(b)s. Thus, you might consider rolling funds from an employer plan to an IRA if you want to take advantage of a giving strategy that involves QCDs.

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For College Savings, 529 Plans Are Hard to Beat

529 plan assets reach $353 billion

As of June 2019, assets in 529 plans reached $353 billion — $328 billion (93%) in college savings plans and $25 billion (7%) in prepaid tuition plans.

Source: Strategic Insight, 529 Data Highlights, 2Q 2019

***Note:** Investors should consider the investment objectives, risks, charges, and expenses associated with 529 plans before investing. More information is available in each issuer's official statement and applicable prospectuses, which contain this and other information about the investment options, underlying investments, and investment company, and should be read carefully before investing. Also consider whether your state offers a 529 plan that provides residents with favorable state tax benefits and other benefits, such as financial aid, scholarship funds, and protection from creditors. As with other investments, there are generally fees and expenses associated with participation in a 529 plan. There is also the risk that the investments may lose money or not perform well enough to cover college costs as anticipated.*

Raising kids is hard enough, so why not make things easier for yourself when it comes to saving for college? Ideally, you want a savings vehicle that doesn't impose arbitrary income limits on eligibility; lets you contribute a little or a lot, depending on what else happens to be going on financially in your life at the moment; lets you set up automatic, recurring contributions from your checking account so you can put your savings effort on autopilot; and offers the potential to stay ahead of college inflation, which has been averaging 3% to 4% per year.[1] Oh, and some tax benefits would be really nice, too, so all your available dollars can go to college and not Uncle Sam. Can you find all of these things in one college savings option? Yes, you can: in a 529 plan.

Benefits

529 college savings plans offer a unique combination of features that are hard to beat when it comes to saving for college, so it's no surprise why assets in these plans have grown steadily since their creation over 20 years ago.

Eligibility. People of all income levels can contribute to a 529 plan — there are no restrictions based on income (unlike Coverdell accounts, U.S. savings bonds, and Roth IRAs).

Ease of opening and managing account. It's relatively easy to open a 529 account, set up automatic monthly contributions, and manage your account online. For example, you can increase or decrease the amount and frequency of your contributions (e.g., monthly, quarterly), change the beneficiary, change your investment options, and track your investment returns and overall progress online with the click of a mouse.

Contributions. 529 plans have high lifetime contribution limits, generally $350,000 and up. (529 plans are offered by individual states, and the exact limit depends on the state.) Also, 529 plans offer a unique gifting feature that allows lump-sum gifts up to five times the annual gift tax exclusion — in 2020, this amount is up to $75,000 for individual gifts and up to $150,000 for joint gifts — with the potential to avoid gift tax if certain requirements are met. This can be a very useful estate planning tool for grandparents who want to help pay for their grandchildren's college education in a tax-efficient manner.

Tax benefits. The main benefit of 529 plans is the tax treatment of contributions. First, as you save money in a 529 college savings plan (hopefully every month!), any earnings are tax deferred, which means you don't pay taxes on the earnings each year as you would with a regular investment account. Then, at college time, any funds used to pay the beneficiary's qualified education expenses — including tuition, fees, room, board, books, and a computer — are completely tax-free at the federal level. This means every dollar is available for college. States generally follow this tax treatment, and many states also offer an income tax deduction for 529 plan contributions.

Drawbacks

But 529 plans have some potential drawbacks.

Tax implications for funds not used for qualified expenses. If you use 529 plans funds for any reason other than the beneficiary's qualified education expenses, earnings are subject to income tax (at your rate) *and* a 10% federal penalty tax.

Restricted ability to change investment options on existing contributions. When you open a 529 college savings plan account, you're limited to the investment options offered by the plan. Most plans offer a range of static and age-based portfolios (where the underlying investments automatically become more conservative as the beneficiary gets closer to college) with different levels of risk, fees, and management objectives. If you're unhappy with the market performance of the option(s) you've chosen, you can generally change the investment options for your *future* contributions at any time. But under federal law, you can change the options for your *existing* contributions only twice per year. This rule may restrict your ability to respond to changing market conditions, so you'll need to consider any investment changes carefully.

Getting started

529 college savings plans are offered by individual states (but managed by financial institutions selected by the state), and you can join any state's plan. To open an account, select a plan and complete an application, where you will name an account owner (typically a parent or grandparent) and beneficiary (there can be only one); choose your investment options; and set up automatic contributions if you choose. You are then ready to go. It's common to open an account with your own state's 529 plan, but there may be reasons to consider another state's plan; for example, the reputation of the financial institution managing the plan, the plan's investment options, historical investment performance, fees, customer service, website usability, and so on. You can research state plans at the College Savings Plans Network.

[1] College Board, Trends in College Pricing, 2014-2018

DOLAN FINANCIAL SERVICES

How to Land a Better Financial Aid Package

Scholarships for current students

Attention parents: The scholarship search doesn't have to end once your child enrolls in college . Many colleges offer scholarships to current students . S earch the college's website or call the financial aid office to inquire. S cholarships for current students might be offered by the college or outside donors, and they might be open to anyone or targeted by major, grade point average (GPA) , ethnicity, o r participation in a certain club or activity. Make it a point to search each year!

Your child has applied to several colleges, and the financial aid awards are starting to arrive. But when you take a look, they're less than what you expected. Or maybe your returning college student got less aid than he or she did last year. Is there anything you can do to get more financial aid?

First, compare apples with apples

When comparing financial aid awards from different colleges, make sure you're comparing apples to apples. Specifically, look at what your actual *out-of-pocket costs* will be at each college, not just the total amount of aid offered. To determine your out-of-pocket cost, subtract the total amount of grants/scholarships and work-study offered from the total cost of each school. For example, consider the following three aid awards:

	College A	**College B**	**College C**
Total Cost	$30,000	$50,000	$70,000
Aid Package	$13,000	$26,000	$56,000
Grants	$10,000	$20,000	$50,000
Work-Study	$0	$2,000	$1,000
Loans	$3,000	$4,000	$5,000
Out-of-Pocket	$20,000	$28,000	$19,000

In this example, even though College C is the most expensive school and has the highest loan amount of all three schools, it has the lowest out-of-pocket cost. And even though College B's total aid package is double College A's award, College B will end up costing you more than College A. In fact, College B will cost $9,000 more out-of-pocket than College C, even though College C's sticker price is $20,000 more than College B.

Look closely at grant details

College grants often make up the largest portion of a student's financial aid award, especially at private colleges. If your child's aid package contains a college grant, you'll want to understand the details. First, confirm whether it's being offered for all four years or just one year. Second, is it based on need, merit, or both? If the grant is based on financial need, keep in mind that the amount may fluctuate with changes to your financial picture. Third, if the grant carries through all four years, find out if there are any requirements your child will need to satisfy to maintain eligibility, such as a minimum GPA, community service hours, or participation in a certain activity. Also, it couldn't hurt to ask if the grant will increase each year to keep up with the likely annual increase in tuition and fees.

Getting a more favorable deal

Let's assume you've compared aid awards and you're ready to zero in on one or two colleges that your child has his or her heart set on. Is it possible to request a more favorable aid package? The answer is yes. The financial aid administrator (FAA) at each college has the authority to exercise "professional judgment" to reduce the loan portion of your child's aid award and increase the grant, scholarship, and/or work-study component. Your chances of prevailing are best in two situations:

1. You have a special circumstance that affects your ability to pay (e.g., a recent job loss, prolonged unemployment, unusually high medical expenses, or some other situation that puts above-average constraints on your income and savings).

2. Your child has been accepted at two competing colleges, and one has offered a more generous aid package than the other. In this case, you might try to play one college against the other. Although many colleges don't mind losing an applicant to a more (or less) selective college, they generally don't like to lose an applicant to a direct competitor.

If neither of these situations applies, you can still contact the FAA to plead your case, but the outcome may be more uncertain.

The process typically involves a polite business letter or email to the FAA, with a follow-up telephone call or meeting a week or so later. Avoid calling first and complaining. Instead, explain in positive terms how much your child wants to attend that particular school, highlight your child's accomplishments, and politely request if any additional grant, scholarship, or work-study aid might be available. Make sure to put your child's name at the top of all correspondence, and keep a copy for your records. You want to be persistent, but not to the point of being a pest.

Whether or not you're successful will depend primarily on the individual circumstances of the college. How much discretionary grant aid does the college have available? Is it meeting its enrollment goals? Does your child possess the qualities or skills that would make the school more diverse and well-rounded in a way that fulfills the college's needs? No one can predict the answers to these questions, which is why requesting a more favorable aid package can't hurt, as long as it's done the right way.

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Should I sign up for an identity theft protection service?

Unfortunately, data breaches are now normal, everyday occurrences in our society. As a result, many companies are offering services to help you protect your personal information. If you want an extra layer of protection, an identity theft protection service is a good option. However, the term "identity theft protection service" can be misleading. The reality is that no one service can safeguard all of your personal information from identity theft. What most of these companies actually provide are identity theft monitoring and recovery services.

A monitoring service will watch for signs that an identity thief may be using your personal information. This typically includes tracking your credit reports for suspicious activity and alerting you whenever your personal information (e.g., Social Security number) is being used. The recovery portion of the service usually helps you deal with the consequences of identity theft. This often involves working with a case manager to help resolve identity theft issues (e.g., dealing with creditors or placing a freeze on your credit report). And depending on the level of protection you choose, the service may also provide reimbursement for out-of-pocket expenses directly associated with identity theft (e.g., postage, notary fees) and any funds stolen as a result of the identity theft (up to plan limits). Identity theft protection services usually charge a monthly fee. Entry-level plans that provide basic protection (e.g., Social Security number and credit alerts) can cost as little as $10 a month, while plans that offer more advanced features (e.g., investment account monitoring) will cost more.

Keep in mind there are steps you can take on your own to help protect yourself against identity theft, such as:

- Check your credit report at least once a year for errors
- Periodically review your bank and debit/credit card accounts for suspicious charges/activity
- Obtain a fraud alert or credit freeze if necessary
- Have strong passwords, use two-step authentication, minimize information sharing, and be careful when shopping online