Coping with the High Cost of Education

How are most families saving for college? For many families, it’s still an old-fashioned savings account. But a better solution for dealing with the high costs of education may be a 529 education savings plan.

Over the past decade, the cost of higher education has soared, yet the need to prepare young adults for a competitive job market remains more important than ever. However, despite the difficult costs of education, many Americans still don’t know about the benefits of 529 education savings plans. Named after Section 529 of the Internal Revenue Code, a 529 plan is a tax-advantaged way to save, or even pay in advance, for college expenses. By establishing a 529 plan now you’re not only taking advantage of a potential tax benefit, you’re giving a child a helping hand toward the skyrocketing cost of higher education.

Investing In Your Greatest Asset

A 529 comes in two varieties: a pre-paid plan and a savings plan. A pre-paid 529 allows the account holder to pre-pay all or part of the tuition and fees of an in-state college education. Pre-paid plans can also be converted for use at out-of-state colleges. For private colleges, there is a similar but separate plan known as the Private College 529 Plan.

This 529 savings plan works similar to a Roth IRA and offers investment options similar to mutual funds. Its value can rise and fall based on the performance of the investment option chosen. Earnings in a 529 plan can be tax deferred, with withdrawals being exempt from federal and state income taxes if you use the funds for qualified expenses such as tuition, fees, room and board and supplies. Many states also offer state tax deductions or tax credits on top of that.

Broad Flexibility

Another key benefit of 529 plans is their flexibility. Some investments that are used for education funding require that the assets be given to the beneficiary when they reach a certain age. With a 529 plan, the owner of the account continues to make all of the decisions. For example, if the beneficiary suddenly decides not to go to college, you can choose a different beneficiary or use the plan for your own education needs.

529 savings can also be used for any accredited in-state, out-of-state or international educational institution. And while some education investment vehicles have
age restrictions, a 529 plan has none, so anyone can contribute to one.

Additionally, you can usually cover full college costs because the contribution limits per beneficiary generally exceed $200,000. However, contribution limits vary by state, so it’s a good idea to connect with a Financial Advisor to confirm.

Potentially Significant Tax Benefits
For tax-planning purposes, your 529 plan contribution is considered a gift to the beneficiary and qualifies for the $14,000 annual gift-tax exclusion, enabling you to make significant contributions without being charged the gift tax. Further, you can frontload your contribution to as high as $70,000 in one year ($140,000 for married couples), then distribute the gift-tax reduction over a five year period.

Assets, however, can accumulate and be withdrawn federally tax-free only if they are used to pay for qualified expenses – tuition, fees, room and board and supplies. Non-qualified distributions are subject to income tax and a 10% federal income tax penalty.

529 plans not only help reduce federal tax, they can reduce state income tax. Thirty-four states, including the District of Columbia, offer residents a full or partial tax deduction or credit for 529 savings plan contributions. A few states even offer a state tax deduction whether you invest in that state’s 529 or not.

If you’d like further information about 529 education savings plans, feel free to reach out to me with questions. Morgan Stanley offers many 529s from some of the nation’s leading mutual fund companies. You can choose from a range of investment strategies depending on the specific plan, the age of the beneficiary, your financial objectives and risk tolerance.

Sources/Disclaimer 1 Source: The College Board https://www.collegeboard.org/
Investors should consider many factors before deciding which 529 plan is appropriate. Some of these factors include: the fees, conditions, restrictions, and limitations of the specific plan, the plan’s investment options and the historical investment performance, the plan’s flexibility and features, the reputation and expertise of the plan’s investment manager, plan contribution limits and the federal and state tax benefits associated with an investment in the plan. Some states, for example, offer favorable tax treatment and other benefits to their residents only if they invest in the state’s own Qualified Tuition Program. Investors should determine their home state’s tax treatment of 529 plans when considering whether to choose an in-state or out-of-state plan. Investors should consult with their tax or legal advisor before investing in any 529 plan or contact their state tax division for more information. The discussion of frontloading contributions assumes that there are no gifts made by the gift giver to the beneficiary in the prior five years. Any gifts made in the five years prior to or the four years after an accelerated gift is made may result in a taxable event. Morgan Stanley Smith Barney does not provide tax and/or legal advice.

Contribution limits vary by state, so it’s a good idea to connect with a Financial Advisor to confirm.

Low Prices - Too Much of a Good Thing?
This article examines lowflation, a precursor to deflation, and its implications for the economy and investors.

Maintaining stable prices is one of the three pillars of US monetary policy. Although commonly associated with inflation, price stability also seeks to manage lowflation, or worse deflation, which is just as disruptive to a growing economy.

Measuring the Impact of Falling Prices
The US economy had two periods of sustained price declines in the past 100 years. From late 1929 to early 1933, prices fell at an annualized rate of 8.7%. From the middle to the end of 2008, prices fell at an annualized rate of 10.3%. These price declines marked two severe economic contractions, the Great Depression of the 1930s and the Great Recession of 2008-2009.

The average consumer who learned about The Great Depression in high school, or more recently, watched news accounts of Japan’s economic meltdown beginning in the mid-1990s, understands why deflation can send an economy into a downward spiral. But what is so bad about lowflation, especially as the effect has been low interest rates, and a price decline in some everyday goods and services, such as gasoline?

According to Morgan Stanley economists, lowflation marks the point at which prices are rising at well below the Federal Reserve’s target inflation rate for months, even years, persistently teetering on the edge of deflation. At this level, lowflation can exert its own steady, downward pull, all the more insidious because it can be so low-key and off-the-radar.

Economists have mapped out three major side effects from lowflation: the higher cost of repaying loans for those who hold a lot of debt; the inability to cut real interest rates when nominal rates are near, or at, zero; and the
damage to central banks’ credibility as they fail to meet inflation targets and start to run out of policy options.

Focusing on the Future
Economic growth may return to historical levels as the US economy continues to recover its footing in the aftermath of the Great Recession. In the meantime, we can expect additional central bank intervention, domestic and foreign.


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Advice Can Add Value on Many Levels

Professional financial advice adds value to client relationships and may help individuals achieve their goals. This article explores different reasons why individuals may wish to turn to an experienced professional when making investment decisions.

In today’s Internet-enabled, do-it-yourself world, many investors go it alone. They pick their own stocks, bonds and funds; choose their own strategies; and make their own buy-and-sell decisions. While this self-directed approach may work for some, it may not be the wisest course for many.

Investment Complexity May Require Professional Advice
Investors today can choose from more than 5,000 publicly traded stocks, in excess of 7,000 mutual funds, 1,200-plus exchange traded funds and several thousand bond issues - and that’s just those listed in the United States.1 Then, there are the alternative asset classes that includes commodities, real estate, hedge funds and private equity.

The breadth of the public securities markets and the complexity of alternative investments require a high level of experience, and this is the value provided by a professional Financial Advisor. In addition, qualified Financial Advisors may have access to sophisticated strategies, institutional quality research and risk management tools that are generally unavailable to untrained individuals.

Discipline and Objectivity – The Hallmarks of Successful Investing
There are a number of classic mistakes that retail investors inevitably fall prey to: overreacting to market news, selling an investment too soon or holding it too long, trying to time the market, or under- or overestimating risk. A qualified investment professional is trained to identify the conditions that lead to these reactions, and may help you avoid these mistakes.
Objective, third-party advice can also help you maintain a disciplined investment strategy because it requires that you set achievable goals, implement trading guidelines and establish rules for buying and selling securities. Investment publications, blogs and television and radio shows are filled with stories about investors overpaying in a bull market and panic selling during a market correction. A Financial Advisor is more likely to view such situations dispassionately and offer a more balanced and long-term perspective.

A Professional Can Offer a Comprehensive Approach

Professional advice’s added value is its holistic approach to investing, taking into account life events, shifting goals, changing economic and market environments, tax events, insurance issues and legacy planning needs. So if you know anyone who is currently managing their own investment portfolio, you may want to consider recommending that they tap into a Financial Advisor’s experience. It may make a big difference in their ability to achieve their long-term goals.

Sources

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Alternative investments often are speculative and include a high degree of risk. Investors could lose all or a substantial amount of their investment. Alternative investments are suitable only for eligible, long-term investors who are willing to forgo liquidity and put capital at risk for an indefinite period of time. They may be highly illiquid and can engage in leverage and other speculative practices that may increase the volatility and risk of loss. Alternative investments typically have higher fees than traditional investments. Investors should carefully review and consider potential risks before investing. Certain of these risks may include but are not limited to:

- Loss of all or a substantial portion of the investment due to leveraging, short-selling, or other speculative practices;
- Lack of liquidity in that there may be no secondary market for a fund;
- Volatility of returns;
- Restrictions on transferring interests in a fund;
- Potential lack of diversification and resulting higher risk due to concentration of trading authority when a single advisor is utilized;
- Absence of information regarding valuations and pricing;
- Complex tax structures and delays in tax reporting;
- Less regulation and higher fees than mutual funds; and
- Risks associated with the operations, personnel, and processes of the manager.

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