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WEALTH ADVISER

Tapping the Kids' 529 Plans to Finance Dad's M.B.A.

PHOTO: ILLUSTRATION: BARI GOODMAN

By Alex Coppola
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The man was midlevel manager at a financial-research firm who decided that going to business school was essential for his career path.

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Upper-level managers at his company typically had advanced degrees, and he was concerned that his lack of an M.B.A. would not only stall his progress at the firm, but could potentially jeopardize his current position.

He believed the degree would eventually result in a promotion and a substantial raise, but he was concerned about finding the money to go back to school. The man was in his early 40s, and had a new mortgage, three young children, and little savings outside of his 401(k).

He thought tapping his retirement account might be the only way to cover the $120,000 tuition bill. So he brought the problem to his adviser, Gary Borowiec.

“This degree was obviously important,” says Mr. Borowiec, managing partner of Atlas Advisory Group, which manages $200 million for 1,000 clients in Cranford, N.J. “But so was finding a funding solution that made the most sense for his family.”

Mr. Borowiec told the man not to tap his 401(k). Doing so would sacrifice the growth of his retirement savings, and incur a significant tax penalty. Instead, the adviser suggested an asset that his client had overlooked: Three 529 college savings plans that he and his wife had funded for their children.

The adviser had helped the man establish the first of those plans almost 10 years earlier--encouraging their use, in part, because of their flexibility. The accounts now held a total of $130,000.

Although the man’s children were the account beneficiaries, the assets within them could be transferred, tax free, to a number of eligible family members--including parents. That meant the man could use money from those accounts to help cover his own tuition costs.

“Fortunately, their children were still very young,” Mr. Borowiec explains. “Once the man had earned his degree, there was plenty of time to rebuild those savings.”

But the man and his wife were hesitant. “They felt like using that 529 money was tantamount to stealing from their children,” the adviser says. “They didn’t trust that this was truly in their kids’ best interests.”

Gary Borowiec

At their next meeting, Mr. Borowiec outlined a strategy to replenish the children's savings accounts. He calculated growth within the 529 accounts over the next 10 years, using a conservative 5% rate of return. Then, he predicted that the man's new post-M.B.A. salary would allow him to more than triple the size of monthly contributions to those accounts. Those increased contributions, coupled with investment returns, would allow them to fully fund their eldest son's account by the time he entered college.

"When the couple saw those projections, they were ready to get on board," Mr. Borowiec says.

The adviser helped the man establish a new 529 savings account for himself. Then, they transferred money into that account from the children's 529s. The man completed his studies in less than two years, and the new degree helped him gain a promotion and a raise.

Immediately, the man began replenishing his children's 529 accounts, increasing contributions from $500 to $2,000 a month. Since then, the man has received two subsequent promotions. By increasing his 529 contributions after each raise, he was able to reach his savings target three years ahead of schedule.

The family will begin drawing on one account next year when their oldest son begins school. And the client is even more appreciative that his retirement savings remain intact and continue to grow.

“You have to take the time to weigh all the options,” Mr. Borowiec says. “In this case the best tool at the client’s disposal was one he had never even thought of.”

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