Douglas Capital Management, LLC

FAQ: College Savings Accounts

Here are some questions that have come up quite often about college savings plans.

Can DCM manage college savings accounts for my children?

This link does a good job comparing and contrasting the various types of college savings plans that are available

529 plans – Cannot be self-directed. In that respect they are similar to 401K plans without a self-directed brokerage option, so I cannot actively manage those accounts

UGMA/UTMA – Douglas Capital Management, LLC can manage these, but the money made from active trading in these accounts will be taxed at a high rate.

Coverdell IRA (Educational Savings Account) – The contribution limits are small, 2K per year, and Interactive Brokers does not support these accounts, so is not likely you would reach the minimum account size of 50K for many years.

Parents Taxed Brokerage Account – This is a highly underrated way for saving for your child's college education. I recommend growth exchange traded funds for clients (Tickers: VUG, VOT, & VBK). These have low dividend payouts and no capital gains distributions until you sell. If you purchase them when your child is 4, and hold them until you child is 20, it is very likely you will have a substantial capital gain over those 16 years. When you want to sell the exchange traded funds, you must navigate through the kiddie tax laws, which are in flux right now. You should consult with an accountant to work out a strategy to liquidate the funds in the most tax efficient manner.

All four plans described here have their plusses and minuses. Some suggestions for each:

529 plans – Make sure you choose a 529 plan that offers index funds and a total management fee of 0.5% or less per year. If possible choose one that will provide you with a state tax deduction for your contributions. Avoid the age-based plans that move the investments from stocks into cash and short-term bonds as your child nears age 18. Think of a 529 plan as just another tax sheltered account in your investmetn portfolio.

UGMA/UTMA – Purchase a portfolio of exchange traded funds with low dividend yields.

Coverdell IRA (Educational Savings Account) – Open up an account with a broker offering low trading commissions, write a check of 2K into the account every year, then purchase a new exchange traded fund once per year.

Parents Taxed Brokerage Account – A key part of your own portfolio should be exchange traded funds that you buy and hold for a number of years. You may also be fortunate enough to hold appreciated stock from your employer. Choose the stocks that have appreciated the most and give those as gifts to your children in order to pay college expenses. Consult with an accountant to determine the best way to navigate through the kiddie tax laws.

Still have questions? Please contact us anytime! We look forward to hearing from you. Send an email to info@dcm-llc.com.

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