



Rick Kahler's Personal Finance Weekly Column

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How to Help Grandkids Pay for College

One financial goal held by many of my clients is to help pay for their grandkids' education. This generosity can foster gratitude and family closeness. Unfortunately, it can also foster resentment and family misunderstandings. Here are some suggestions for helping with grandchildren's college expenses in positive and supportive ways:

1. Be fair. This doesn't necessarily mean giving each child the same amount down to the penny. It's perfectly fine to consider factors like various family's incomes or kids' different abilities and career goals. One possibility might be to define "fairness" as helping grandkids to be on a reasonably equal financial footing when they graduate.
2. Give what you can afford. Sacrificing your own retirement security to pay for college ends up being a family burden, not a gift. Give out of love, not guilt, and don't allow family members or your own feelings to manipulate you into giving more than you can manage. Also, before you go overboard with a generous 529 plan for the first grandkid, remember that you have no control over how many grandchildren you might have. It's easier to start conservatively and give more later than to take away what you've already given.
3. Work with parents, not against them. For example, if parents require kids to pay part of their own college costs, don't go behind their backs with payments to the grandkids. Use your funding to support parents' wishes and plans, not undermine them.
4. Give without trying to control or manipulate. It might be appropriate at times to give in ways that offer incentives for kids to help themselves: offering to pay off loans after graduation, for example, or making funds from a 529 Plan available after they finish their first year of school. But a gift with strings or expectations attached ("I'll pay for college only if you go to my alma mater," or "only if you become an engineer.") creates resentment rather than appreciation.
5. Set clear limits as appropriate. Unlike manipulating, setting limits is being clear about what you can and will give. Examples of limits are: "I'll pay tuition up to the amount for a state school; if you want to go to a more expensive school you'll need to cover the difference." Or,

"We'll pay \$10,000, and that's all." Or, "I'll pay for undergrad tuition but graduate school is your responsibility."

6. Make a Plan B. Suppose you have a college fund of \$25,000 for each grandchild. One gets a full ride scholarship and doesn't need the money. Another chooses not to go to college. What do you do with their funds?

Before you decide, consider factors like tax consequences, fairness, and how best to support each grandchild. Some possible options include:

- Give the money to the kids outright when they reach a certain age.
- Transfer the money to other grandkids' funds.
- Use it to help the grandchild finance the purchase of a home or start a business.
- Transfer it to an investment account for the grandchild.
- Leave them the equivalent amount in your will.

7. Communicate. Talk with your children about the college funding you are able and willing to do for their children. Discuss funding plans, amounts, limits, and what the grandkids are expected to provide for themselves. As grandkids get older, let them know how you intend to support their education.

Finally, be more than just the bank. Be an active grandparent. Spend time with the grandkids, get to know them, listen to them, and encourage their dreams. Make financing their education only one narrow part of a deeper relationship that enriches both of you.