

Ownership for Married Couples Paying for College

By Casey Neuman, Esquire

If a married couple has survived the first twenty years of marriage, there is an excellent chance the marriage will survive until one of them dies. The major financial issue then facing the couple who have children is paying for college.

Few married couples are able to fund all of the education costs of their children out of current income. It is generally necessary to dip into savings. In some instances, where savings has taken the form of investing in a diversified portfolio of common stocks, liquidation of the securities is quick but generally has tax consequences. We suggest that couples in that circumstance review their portfolio balancing gains and losses.

Liquidating jointly-held securities to pay children's educational expenses should be done before liquidating the securities of the spouse who has few other assets in his or her name. If both spouses own marketable securities and capital gains or losses are not an issue, it is best for the party having the larger total estate liquidate securities first.

Another common source of funds for college is to borrow the funds often securing the loan by either a new mortgage on the couple's home or a home equity loan. With interest rates at historic lows, this is often the best course.

Only after the couple has exhausted their personal holdings and have maximized their borrowings on their home, should they seek to borrow from qualified retirement plans. Frequently, 401(k) plans and profit sharing plans permit such loans at competitive interest rates. While distributions from a regular IRA are not subject to the 10 percent penalty, if the owner is under 59 1/2 and the funds are used for qualified higher education expenses, the distributions will be taxable income. Depending on the duration of contributions to a Roth IRA, this is an excellent source of non-taxable funds for education expenses.

Of course, one of the best sources of funds is scholarship aid. Before a couple liquidates their retirement savings, they should fully explore all available sources of aid.

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