Karen Telleen-Lawton: Financial Advice on Education Accounts, Reverse Mortgages

By Karen Telleen-Lawton, Noozhawk Columnist | Published on 11.13.2012 10:06 a.m.

Examining your finances takes fortitude. It requires examining your wallet and looking into the mirror and into your heart. What are your goals and dreams? What do you want, and what can you afford?

Here are a couple of the questions I've heard as the principal of Decisive Path Fee-Only Financial Advisory. (The fact patterns are changed to protect privacy.)

Q. My first grandchild was born last year. My husband and I would like to set up something for her college education — and the education of any future grandkids. What do you suggest?

A. I commend you for considering the gift of education! Your kids will appreciate it now, and your lucky grandchildren will later.

There are several ways to fund future education, from trusts to outright gifts to tax-advantaged accounts. Trust accounts for minors used to be common and easy, but their tax advantages have dwindled and the account becomes the property of the child.

For many situations, setting up an educational savings account (called a "529 account" in tax jargon) is a good combination of simple, flexible, and with some safeguards.

Every state offers 529 plans and many universities have them, too. You have some investment choices in these plans, including inexpensive ETF indexes as well as target-date funds designed so that the asset allocation is more conservative as your student's enrollment year nears. The money you contribute is after-tax, so the appreciation is not taxed as long as the money is spent on education for the named individual. Even if you maintain ownership (naming the child as beneficiary), the funds are not included in your estate.

Ah, but what about those future grandchildren? If you start a 529 plan for each grandchild and retain ownership of the plans, you have the power to change beneficiaries and shift funds among the plans within annual limits. A secondary owner can even continue this after you're gone, though no new money could be added.

Q. I live in a trailer park and own my unit outright. I need income to supplement my Social Security, so I'm thinking a reverse mortgage would be perfect. However, I was told I can't do this with a mobile home. What do you think about selling my mobile home, buying a house and getting a reverse mortgage on the house?

A. Reverse mortgages (RM) are an increasingly popular way to raise monthly cash flow, but it is not fail-safe.

The good news: As long as you continue to keep up the house and pay all other housing expenses, such as property tax, insurance, maintenance, etc., the mortgage lender can never kick the owner out of the house. However, reverse mortgages are complicated and expensive. They cost many thousands of dollars to set up, and interest owed compounds throughout your lifetime and becomes a liability in your estate. If your spouse or partner is not on the deed, he or she could be evicted after you die.

It *is* true that mobile homes are not eligible, but consider how difficult it may be to find a house that is less expensive than a mobile home. You would most likely need to move to a less attractive area. Lastly, only a certain number of HUD-approved RM loans are allocated to each area, so it is possible that you could spend many thousands of dollars on selling and purchase costs and then not be approved for a RM that is federally protected.

Frankly, this is unlikely to be a good solution to your cash flow needs, but you may want to go online for a complimentary appointment with a HUD-approved RM specialist.

— Karen Telleen-Lawton's column is a mélange of observations spanning sustainability from the environment to finance, economics and justice issues. She is a fee-only financial advisor (www.DecisivePath.com) and a freelance writer (www.CanyonVoices.com).