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D|A DAVIDSON

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How a "Dynasty 529 Plan" May Benefit Multiple Generations

We have written in the past about the benefits of using state sponsored 529 plans to fund qualified education expenses. We wanted to expand further on the idea to illustrate how a "Dynasty 529 Plan" could benefit multiple generations and potentially be a useful estate planning tool. The first thing to point out is that our use of the term "Dynasty 529 Plan" refers to a strategy rather than a different and unique type of 529 plan. Also note that our use of the words "plan" and "account" are synonymous.

Let's first review some key features of a 529 plan.

- Contributions into an account grow on a tax-deferred basis.
- Distributions for qualified education expenses are tax-free.
- You may qualify for a state income tax deduction subject to annual contribution limits.
- Multiple family members could benefit from one plan because of the ability to easily change the account beneficiary.

There are no tax consequences or penalties when a 529 plan beneficiary is changed to a member of the beneficiary's family. Qualified family members include the beneficiary's spouse, son, daughter, stepchild, foster child, adopted child or a descendent; son-in-law, daughter-in-law, siblings or step-siblings, brother-in-law, sister-in-law, father-in-law or mother-in-law; father or mother or ancestor of either, stepmother, stepfather, aunt, uncle or their spouse, niece, nephew or their spouse, and first cousin or their spouse. *Source: https://www.savingforcollege.com/article/how-to-change-the-beneficiary-on-your-529-plan*

With this flexibility the basic premise of a Dynasty 529 Plan is to establish a plan and "Superfund," it so that not only multiple family members, but generations of family members, can benefit.

States have limits on contributions to their 529 plans ranging from $235,000 to $529,000. This applies to the contributions, not the account value as it grows over time. Once the value of the plan exceeds the state limit, no further contributions can be made (but another 529 plan could be established).

529 account contributions are exempt from federal estate taxes. They are, however, considered completed gifts for tax purposes. That means contributions above the annual exclusion amount are counted against the donor's lifetime exclusion amount, and that amount includes the estate tax exemption.

The current annual gift tax exclusion is $18,000 and 529 plans allow for five years of gifting to be done at once to "Superfund" the account. So a single filer could contribute $90,000

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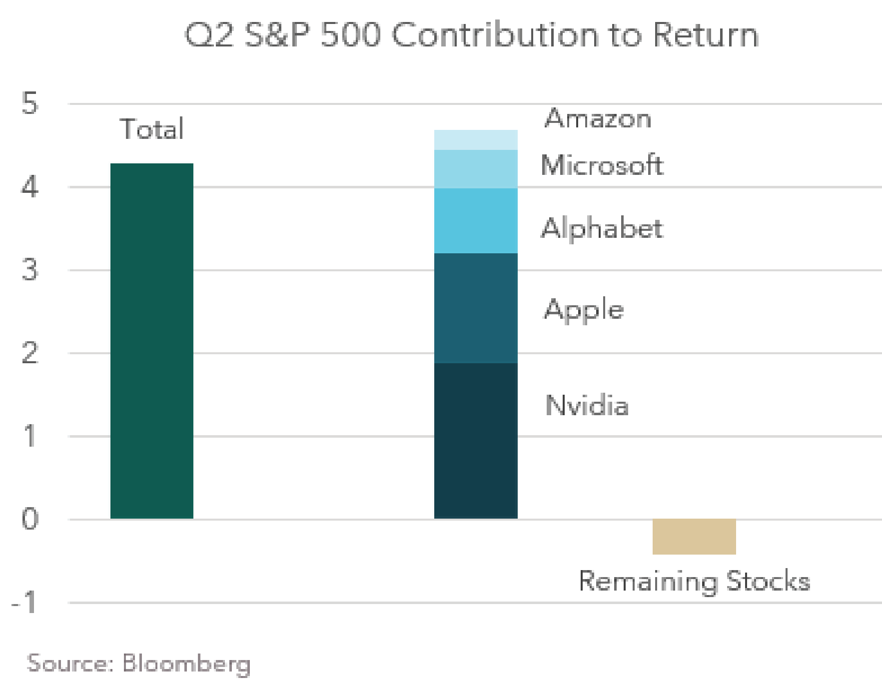
and a couple could contribute $180,000 and still not have those amounts count against their lifetime exemption. More funding could be done up to the maximum allowed by the state with those additional amounts going against the lifetime exemption. *Source: https://www.savingforcollege.com/article/dont-worry-too-much-about-the-annual-gift-tax-limit#:~:text=529%20plan%20contributions%20are%20exempt,includes%20the%20estate%20tax%20exemption.*

Now we finally get to the "Dynasty" aspect of the 529 plan. Most states have no limit on how many years the plan can exist. Further, current guidance is that a Trust can be the owner of a 529 plan. With no "expiration date" for the plan, a corporate trustee could manage a plan not just for multiple beneficiaries, but multiple generations of beneficiaries. An important consideration is that if a trust owns a 529 plan, the trust agreement needs to contain provisions to assure that the trustee has the power to make appropriate decisions about the 529 plan. For this reason, a qualified estate planning attorney should draft the documents and the contributor should be aware that any changes to laws regarding 529 plans have the potential to disrupt what is today a very powerful estate planning tool. *Source: Trusts and Estates, May 2023*

A Not-So-Balanced Diet

Equity markets continued to move into positive territory with the S&P 500® Index posting a 4.3% gain for the second quarter. Looking deeper, however, without just five stocks - Nvidia, Apple, Alphabet, Microsoft and Amazon - the index would have printed a negative return. Last quarter, we noted the narrowness of the rally, and though we saw signs of broadening in March, the market has narrowed even more significantly since. Value stocks, as represented by the Russell 1000® Value Index, had negative returns and underperformed their growth counterparts by nearly 10.5%. Similarly, small company stocks in the Russell 2000® Index returned -3.3%, underperforming those in the large company Russell 1000® Index by almost 7%. These trends of large outperforming small, and growth outperforming value, have been going on for some time and are at (or nearly at) historical extremes.



A Not-So-Balanced Diet

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The outperformance of Technology sector stocks is centered around the excitement of Generative Artificial Intelligence (“Gen AI”), with some claiming it to be as significant of an event in human history as the Industrial Revolution. Vast sums of money are being spent on Gen AI by the largest companies in the world for fear of being left behind, though the return on these investments is highly uncertain. The underperformance of Financial and Industrial stocks may be attributed to interest rates being “higher for longer,” as expectations for cuts by the Federal Reserve have been delayed. At the beginning of the year, markets were expecting five or six cuts, but current expectations have been whittled down to one or two. Higher rates slow the economy, which in turn may lower the profitability of economically-sensitive companies represented in these underperforming sectors. Explanations aside, a market where only a few gain when most tread water, or are beginning to sink, is less than ideal.

Markets in the second half of the year will be most concerned about two things: the upcoming Presidential election and the Federal Reserve (the “Fed”). With the Federal Funds Rate at 5.5%, inflation now below 3% and unemployment at 4% and rising, a rate cut would seem prudent. But will this non-partisan institution be nervous to lower rates before an election, for fear of playing politics? Speaking of politics, this election will be - and already has been - full of surprises, but some things won’t change regardless of who wins. Deficit spending will likely move higher as entitlements crowd out discretionary spending on infrastructure and defense, and debt issued by the U.S. Treasury will continue to climb. Suffice to say that even children learn at an early age that to gorge on one thing - whether it be debt or candy - usually is not healthy if one wishes to grow long-term. [1]

LEFT TO RIGHT:
Kate Absec, FPQP®, Senior Registered Associate; **Brad Dugdale,** Senior Vice President, Financial Advisor, Portfolio Manager; **Stephanie Brunner,** Client Associate; **Darin Hayes,** CPFA, CWS®, Senior Vice President, Financial Advisor, Portfolio Manager.

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Team Tidbits

Brad

It is often said the summer does not start until the 5th of July and this year it was true. May and June were COLD! My son Chase and I played in a Member/Member Golf tournament, and we were practicing in 50-degree weather. Brrrrrrrr. We held a barbecue on the 4th with friends and family. Chase secured a brisket and slow cooked for 12 hours. Delicious! Bradley and his sweetheart are here, and it is always fun when we can all spend time together. On the weekends little Bella (now 2 years and 3 months) and her mom and dad stay with us at the lake. Bella and I are tight. She is constantly sharing new words and phrases when she is not being a dinosaur. I smile when she "wants salad berries." Summer golf is in full swing, our club host a weekly scotch ball called the Friday night fights with friends and dinner. It's a nice way to end the week. On July 18th Shariae and I celebrate 43 years together. We feel and are blessed.

Darin

By the time this gets published, we will have spent a week rafting the Main Salmon and I will have celebrated another trip around the sun. Teagan has spent the summer both in Moscow and Coeur d'Alene. She started the summer by working on campus with some grad students analyzing wolf DNA. Then she came back to Coeur d'Alene and has been working with the CDA Police Department as some extra eyes and ears downtown during the busy season. You better be good if you go downtown! We've gotten quite a few hikes in this summer and some quality lake time. I tried stand-up paddle boarding for the first time and the term "stand-up" would be quite generous for what actually took place. It was more like a sea lion trying to get back on a dock. Monique is proud.

Kate

Wow! Isn't this a great and hot summer? We sure were thankful to have access to the lake to cool down. After a long and quiet winter, our home has been a flurry of activity most of the summer with kids, grandkids, campers and boats. We look like a KOA campground and we love it. We have plenty of BBQs, beach towels, floaties, kiddie pools, bon fires, sparklers, s'mores, squealing, laughing, running, jumping off dock, but (be real) also some whining, crying, etc. Oh well…

Terry and I both had a rough spring with some health situations that landed us both in the hospital within a few days of each other. Unfortunately, that meant canceling our overseas excursion but we are keeping an eye on the calendar to reschedule. We are both feeling better now. Here's hoping you had a great summer with your loved ones as well.

Steph

Summer is in full swing, and we have been up to many adventures. We traveled to Grand Lake, CO to watch Matt's little brother marry his darling bride. We spent 5 days taking in the Soul of the Rockies with the Brunner family making fun memories. Daws was such a trooper and kept up with all the adults in the hustle and bustle. Being the only kid on a trip is no easy task and she impressed the heck out of me. We then spent a week at Flathead Lake celebrating the 4th of July and my mom's birthday with the Gibbs side of the family. Lots of fireworks, swimming, sunshine, auntie, uncle, grandparent, and cousin time for our little Daws. Safe to say she's been living her best life and getting a great tan line while doing it. Anyway, we will spend the rest of our summer up at the St. Joe trying to take advantage of the warm weather and smoke free skies for as long as we can. I hope you all have a great rest of your summer as well. As always, stay classy.

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