



HIGHTOWER
Westchester



Funding Your Child's Education

*Planning strategies to consider
with your advisor*

The skyrocketing cost of college education has become a growing concern for students and families across the U.S. — even for those with relatively high income and asset levels. In 2024–25, average annual total costs (i.e., for tuition and fees; room and board; and allowances for books and supplies, transportation, and other personal expenses) for full-time undergraduate students were:¹

- \$20,570 for two-year students at public schools
- \$29,910 for four-year students at in-state public schools
- \$49,080 for four-year students at out-of-state public schools
- \$62,990 for four-year students at private nonprofit schools

As tuition continues to rise, it is crucial to adopt a proactive approach to prepare for this major expenditure. Here are some of the main planning options you may want to consider:

529 Plans

Ideally, you want to begin saving for a child’s education costs as early as possible. One of the best ways to do so is through a 529 education savings plan. Currently, 49 states and the District of Columbia offer one.

529 plans offer tax-deferred investment growth and tax-free distributions when used for qualified education expenses. Beginning in 2026, these plans permit up to \$20,000 per beneficiary per year for qualified K–12 education expenses, including both tuition and an expanded set of non-tuition costs such as books, curriculum materials, testing fees, tutoring, and other approved educational services.² In addition, 529 plans allow a lifetime maximum of \$10,000 per beneficiary to be applied toward qualified student loan repayment.

Under the One Big Beautiful Bill (OBBBA), 529 eligibility has also been broadened to include industry-recognized credentials, licensing, apprenticeship, and continuing-education programs, thereby extending the utility of these accounts to individuals pursuing workforce re-entry, reskilling, or specialized professional training.

Individuals are not limited to their state’s plan and can contribute to any 529 plan. If your residency state’s plan does not offer a meaningful tax deduction or tax credit for 529 plan contributions, consider a plan that boasts low fees and a broad range of investment options.³

Also, now, as a result of the Setting Every Community Up for Retirement Enhancement (SECURE) 2.0 Act, beneficiaries of 529 college savings accounts can roll over up to \$35,000 over the course of their lifetime from any 529 account in their name to their Roth IRA. This helps alleviate concerns that money allocated to 529 accounts will be “trapped” if ultimately unused, encouraging greater savings for both education and retirement. Please note that these rollovers are subject to Roth IRA annual contribution limits and that the 529 account must have been open for more than 15 years.



UGMAs and UTMAs

Custodial accounts, also known as UGMA (Uniform Gifts to Minors Act) or UTMA (Uniform Transfers to Minors Act) accounts, are another way to save for a child's college education. Adults typically establish these accounts on behalf of a minor. While the funds must be used for the child's benefit, they are not necessarily earmarked for expenses related to college education, and the child assumes full control at the age of majority, typically 18 or 21, depending on the state. This lack of control may concern some. It is also important to note that custodial accounts are considered assets of the student when applying for financial aid. This can affect the amount of needs-based aid the student receives, so it is important to weigh the potential impact in situations where financial aid is a possibility.

Gifts and Direct Payments

For grandparents or other relatives or loved ones who want to help fund a student's college education, the federal gift tax exclusion allows them to give a single beneficiary \$19,000 (\$38,000 per married couple) per year (based on 2026 amounts) without incurring any gift tax. This money could be used by the beneficiary to cover college expenses, although, of course, it could also be used for other purposes. Or perhaps better yet, these gifts could be made directly to the beneficiary's 529 plan or custodial account, taking advantage of two types of tax savings – the annual gift tax exclusion and tax-free growth of the gift once invested in the beneficiary's account.

Direct tuition payments are also exempt from gift tax. This is true for elementary, secondary, post-secondary, and other qualifying schools but does not extend to books, room and board, or other expenses.

Roth IRAs

Although Roth IRAs are most frequently used to save for retirement, they can also be used to pay for qualified educational expenses. No additional penalty is assessed on these withdrawals, but you will incur an income tax liability if you have had the Roth IRA for less than five years and you withdraw not just the principal amount contributed but also earnings. Any excess funds that aren't ultimately used for college can remain invested within the account for retirement, so you can use a Roth IRA to save for both goals simultaneously.

Tax Credits

Two federal education income tax credits allow parents – or students if they are not claimed by their parents as a dependent – to lower their tax liability. However, both are subject to income limitations as detailed below:

	Lifetime Learning Credit	American Opportunity Tax Credit
Covers	Undergraduate, graduate and professional degree courses	First four years of higher education
Annual credit amount (2026)	\$2,000 per tax return	\$2,500 per student
Income Limits	Phased out at modified adjusted gross income in excess of \$80,000 – \$90,000 (\$160,000 – \$180,000 for joint returns)	

Source: Block, H. (2025, January 30). American Opportunity Tax Credit vs Lifetime Learning Credit | H&R Block®. H&R Block. https://www.hrblock.com/tax-center/filing/american-opportunity-vs-lifetime-learning-credit/?srsltid=AfmBOopW3c-Qt8UnLjD4QG9YRHjbOHBU2se5sV_6uee4ynWtLJRGF_rpzp

Trump Accounts

The One Big Beautiful Bill Act (OBBBA) created a new tax-advantaged savings vehicle—informally known as “Trump Accounts”—designed to help families invest for their children’s future. These accounts function as tax-favored custodial investment accounts, with some features similar to retirement accounts.

Under the program, the U.S. government will provide a one-time \$1,000 contribution for eligible children born between January 1, 2025, and December 31, 2028, who are U.S. citizens with valid Social Security numbers.

After the account is opened, parents, relatives, friends, employers, and other parties may contribute up to \$5,000 per year per child. Employer contributions may be up to \$2,500 per year, and they count toward the same \$5,000 annual limit.⁴

Families with children born outside the 2025–2028 window may still open an account for their child; however, they will not receive the federal \$1,000 seed contribution.

Parents or legal guardians will manage the account until the child turns 18, at which point the account transfers to the child, who can make withdrawals subject to applicable tax rules. This could be a great resource for students once they reach college age, as the funds from the account can be used for college expenses such as tuition, books, and fees.

Trump Accounts are expected to become available for opening in early 2026, with the first allowable contributions beginning July 4, 2026.



Scholarships and Grants

Scholarships and grants are an excellent way to offset the rising cost of a college education. However, while every parent would love to see their child receive a four-year academic or sports scholarship to the college or university of their dreams, that is simply not realistic for most. In fact, recent data indicate that only about 0.2% of students receive scholarships worth \$25,000 or more, while 0.1% of students are awarded full-ride scholarships each year.⁵ However, many families are able to take advantage of some type of scholarship, from private scholarships to federal Pell Grants.

Students should invest time in researching and applying for scholarships well before their senior year of high school. Many organizations, institutions, and businesses offer scholarships based on academic achievement, leadership skills, extracurricular involvement, or specific fields of study. Additionally, students should explore grants offered by federal and state governments, as well as private foundations.

reach out to us

The rising cost of college education may seem daunting, but with careful tax-aware planning and strategic actions, students and families can navigate this financial challenge. We are here to help. Please reach out to us early and often for help finding the right ways to save for and fund your family's education.





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¹ Zinn, D. (2025, July 28). Average cost of college 2024–2025. Bankrate. <https://www.bankrate.com/loans/student-loans/average-cost-of-college/#cost>

² Mdisipio. (2025, November 10). 529 plans and the OBBBA: What you need to know | BlackRock. BlackRock. <https://www.blackrock.com/us/financial-professionals/insights/529-plans-and-the-obbba-what-you-need-to-know>

³ Fiducient Advisors. (2023). (rep.). 2023 Financial Planning Guide. Retrieved December 9, 2025, from <https://www.fiducientadvisors.com/wp-content/uploads/2023/01/Fiducient-Advisors-2023-Financial-Planning-Guide.pdf>.

⁴ Cerullo, M. (2025, December 4). How Trump accounts for kids will work and more key details following Dell donation. CBS News. <https://www.cbsnews.com/news/trump-accounts-kids-explained/>

⁵ Flaherty, B., Lauren, R., Flaherty, B., & Lauren, R. (2025, June 11). How many people get scholarships? percentage, displacement insights & top awards. TuitionHero. <https://www.tuitionhero.org/resources/scholarships/how-many-people-actually-get-scholarships>

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