# Here is a Crash Course in 529 Plans and Their Impact on Financial Aid

Are you worried about the rising cost of education? 529 plans can be powerful college savings tools when you understand how to take full advantage of them.

**Start with the Basics**
529 plans are tax-advantaged college savings plans sponsored by a state or state agency, and there are two types:

- **Prepaid tuition plans.** With this type of plan, tuition and fees for a specific school are paid in advance.
- **Savings plans.** These are tax-advantaged investment vehicles (the account grows tax deferred, like individual retirement accounts [IRAs]). Savings can be used at most accredited colleges and universities in the U.S. or abroad.

**Make Your Plan Work for You**

When timed appropriately, contributions and withdrawals can help maximize your 529 plan. With most plans:

- **You can only contribute cash.** This includes checks, money orders, and credit card payments. You can’t contribute stocks, bonds, or mutual funds without liquidating them first.
- **Anyone can contribute.** With a 529 plan set up, gift giving just became easier!
- **There are investment options.** You can choose how to invest your contributions from a variety of investment portfolios.

- **You may be able to use funds for K–12 education.** Be sure to check as not all states recognize these updated provisions for K–12 education.
- **Research tax impacts.** Withdrawals used to pay qualified education expenses are free from federal income tax and may also be exempt from state income tax.

**The CliffsNotes on contributions.** To qualify as a 529 plan under federal rules, a state program can't accept contributions more than the anticipated cost of attendance for the most expensive schools in the country. Most states have contribution limits of $350,000 and up per beneficiary.

The type of plan determines the limits:

- **Prepaid tuition plans.** These limit total contributions.
- **Savings plans.** These limit the value of the account (contributions plus earnings).
- **Minimum contribution requirements.** Some plans have requirements, such as minimum opening deposits or yearly contribution amounts.
- **State guidelines vary.** Contributions made to one state's 529 plan don't usually count toward the contribution limit in another state. Be sure to check the rules of each state's plan.

Should you fund your plan in a lump sum or over time?

- **Monthly investments may be an easy option.** 529 plan earnings grow tax deferred and can be withdrawn tax free if used to pay for qualified expenses. The sooner you put money in, the sooner you can start to generate potential earnings.
- **A lump sum may have unwanted gift tax consequences.** With limited opportunities to change your investment portfolio, you could get locked into undesirable investments for a

period of time.

**Timing is everything!** Although 529 plans are tax-advantaged accounts, potential federal tax impacts are something to keep in mind. Under special rules unique to 529 plans, you can gift a lump sum of up to five times the annual gift tax exclusion—$75,000 for individual gifts or $150,000 for joint gifts—and avoid federal gift tax, provided you make an election on your tax return to spread the gift evenly over five years. (The federal gift tax exclusion is $15,000 for 2021.

Withdrawals should also be coordinated with education tax credits—the American Opportunity Credit and Lifetime Learning Credit—because tuition expenses used to qualify for a credit can't be the same tuition expenses paid with tax-free 529 funds.

# What About Financial Aid?

During the financial aid process, income and assets are examined to determine how much the student should be expected to pay for school before receiving financial aid. To maximize the beneficiary's future financial aid options, pay close attention to who is listed as the owner of your 529 plan.

**How to handle 529 plans owned by parents.** The value of any parent-owned 529 plan will be listed as an asset on the Free Application for Federal Student Aid (FAFSA). Colleges and the federal government typically treat 5.64 percent of parental assets as available to help pay college costs. By contrast, student assets are assessed at a rate of 20 percent.

Here are some additional things to keep in mind about parent assets:

- **Will the plan be considered an asset?** Parents are required to list a 529 plan as an asset only if they are the account owners of the plan.

- **A note for students who are dependents.** A 529 account owned by a dependent student—or by a custodian for the student—is reported on the FAFSA as a parental asset.
- **Yearly income guidelines.** If parental adjusted gross income is less than $50,000 and they meet a few other requirements under the simplified needs test, the federal government doesn't count any of their assets.* In this case, the 529 account wouldn't affect financial aid.
- **Subsequent years may look different.** For parent- and student-owned 529 plans, funds aren't classified as parent or student income the following year when they're used to pay for qualified education expenses.

**What about grandparent-owned 529 accounts?** If a grandparent is the account owner, the 529 plan doesn't need to be listed as an asset on the FAFSA. Withdrawals from a grandparent-owned 529 account, however, are counted as student income—which is assessed at 50 percent—on the FAFSA the following year. This means financial aid eligibility could decrease by 50 percent in the year following the withdrawal. Grandparents may want to wait until their grandchild's last two years of college to make a withdrawal if they are concerned about the potential impact on financial aid.

**Preparation Is Key**

You should review all your options to ensure that you're financially prepared for education expenses. If you'd like to discuss 529 plans—or any other options—or if you have any questions about the information presented here, please contact me or my office.

* *An applicant who qualifies for the simplified needs test may still be required to report assets on the FAFSA if they live in*

*a state that requires asset information to determine eligibility for state grant programs. The asset information will be used only to determine eligibility for state grant programs. It won't be used to determine eligibility for federal student aid. The states include Colorado, Georgia, Hawaii, Illinois, Minnesota, New Jersey, New Mexico, Ohio, Oklahoma, South Carolina, Vermont, Washington, Washington D.C., Wisconsin, and Wyoming.*

*This material has been provided for general informational purposes only and does not constitute either tax or legal advice. Although we go to great lengths to make sure our information is accurate and useful, we recommend you consult a tax preparer, professional tax advisor, or lawyer.*

*The fees, expenses, and features of 529 plans can vary from state to state. 529 plans involve investment risk, including the possible loss of funds. There is no guarantee that a college-funding goal will be met. To be federally tax free, earnings must be used to pay for qualified higher education expenses. The earnings portion of a nonqualified withdrawal will be subject to ordinary income tax at the recipient's marginal rate and subject to a 10 percent penalty. By investing in a plan outside your state of residence, you may lose any state tax benefits. 529 plans are subject to enrollment, maintenance, and administration/management fees and expenses.*

Qualified Expenses:

• College/university cost of attendance (tuition, fees, books, equipment, and room and board)

• Certified apprenticeship programs (fees, books, supplies, and equipment)

• Student loan repayment ($10,000 lifetime limit per beneficiary and $10,000 per each of the beneficiary's siblings)

• K–¬12 tuition expenses up to $10,000 per year

# Why Contractors Should Consider Errors & Omissions Coverage

By Krissy Campbell, CIC , ACSR

Contractors face several potential hazards in today's competitive and litigious society; customers are sometimes quick to allege negligence in a contractor's work.

Contractors Errors & Omissions insurance, also referred to as E&O insurance, provides coverage for things such as damages arising out of unintentional faulty workmanship, installed products, recall of their work and impaired or defective property.

Questions about contractors E&O insurance? Ask Allen. We're here to help.

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# Welcoming a New Employee-Owner, Taylor Ankers

Taylor Ankers of Rockland has joined Allen Insurance and Financial as a receptionist in the company's Camden office.

A newly licensed Maine property & casualty insurance producer as well as a Maine Notary Public, Ankers is a graduate of Oceanside High School in Rockland and attended the University of Southern Maine. Before joining Allen, she worked locally in the banking industry.

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# Jennifer Coffin Earns Safeco Insurance Award of Excellence

Jennifer Coffin, ACSR, CPRM, a personal insurance account executive with Allen Insurance and Financial, has earned the Safeco Insurance Award of Excellence, an honor recognizing superior underwriting skill.

This recognition is achieved only by a select group of agents across the country who sell Safeco Insurance.

"Excellence in underwriting means bringing exceptional customer service together with a deep understanding of the complexities of insurance coverage to create great outcomes for our customers," said Scott Carlson, manager of the personal insurance division at Allen Insurance and Financial. "Jen and the entire Allen personal insurance team do that daily by ensuring customers get the insurance coverage that works best for them. This recognition is well deserved."

The Safeco Award of Excellence honors outstanding agents who have developed a solid underwriting relationship with Safeco and whose agencies have qualified for the Safeco Insurance Premier Partner Award, the company's top recognition program. Fewer than

10 percent of agencies who sell Safeco have agents who receive this award.

Coffin, of Nobleboro, has been with Allen Insurance and Financial since 2004. She holds both the Accredited Customer Service representative (ACSR) and Certified Personal Risk Manager (CPRM) designations.

Allen Insurance and Financial is a multi-year President's Award and Premier Partner agency, recognition given only to the best independent insurance agencies that sell Safeco. Safeco is a Liberty Mutual Insurance company.

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# Maintenance, Cure and Wages – and Your Insurance

By Chris Richmond
Originally Submitted to WorkBoat Magazine

Chris Richmond

Commonly referred to as The Jones Act, coverages under the Merchant Marine Act of 1920 provide broad benefits for your crew. It is always important to review what your crew are entitled to and what insurance you should have for this.

Under the MMA of 1920 if a crewmember is injured or falls ill while in service to the ship then they are eligible for maintenance, cure and wages.

Maintenance is lodging and meals should an injured crewmember have to find alternative accommodations due to the claim; the cure is doctor's visits and medical treatment until maximum medical cure has been reached and wages are the pay the affected crewmember would have earned had they not been laid up. Your protection and indemnity policy will respond to this if you have crew coverage.

Be sure to keep your crew count accurate as you can. If you have more crew on board than you have listed on your insurance policy,  you may suffer a co-insurance penalty. Insurance companies generally don't like to cover something (or someone) who isn't specifically written in a policy.

It is also important to remember that maintenance, cure and wage claims are no-fault. This means a crew member only has to establish that  they were in service to the ship at the time of their injury or illness and then these benefits are available to them.

Though this can vary, the standard to establish seaman status as a crewmember is generally seen as spending 33% of one's time in service to the ship.

I always tell my clients to let an adjustor determine whether or not a claim is valid. If you know of an incident or a crew member reports one, turn in the claim and let the insurance company decide. Otherwise, you may face suit under the Jones Act.

The Jones Act allows for crewmembers to sue the vessel for damages resulting from injuries they may have suffered aboard the vessel either because of negligence or unseaworthiness. Should the claim be successful the crewmember would be entitled to future lost wages as well as damages for pain and suffering. Again, the crewmember must establish seaman status – but again, let the insurance adjuster make that call.

You P&I insurance can be one of your vessel's larger expenses but a claim that is not handled properly can cost you much more. Don't be afraid to let your agent know what is happening on board involving injuries. You're paying for your insurance to cover you when you need it in cases like these.

# Estate Planning for LGBTQ+ Married Couples

On June 26, 2015, in the *Obergefell v. Hodges* decision, the U.S. Supreme Court ruled that states must allow same-sex couples to marry and must recognize same-sex marriages from other states. As a result, estate planning for LGBTQ+ married couples became equal, under the law, to planning for other married couples. As with any historic legal case, however, unique challenges have emerged in the wake of the *Obergefell* decision. This is especially true regarding estate planning.

Consequently, a comprehensive estate plan review is a must for LGBTQ+ couples who were married, were in a domestic partnership, or created an estate plan *before* June 26, 2015. Your current estate plan might no longer make sense for several reasons, including those discussed below. Together, we can discuss your situation and create or update your estate plan appropriately.

**Beneficiary Designations**

To move forward with a fresh slate, you may want to purge anything related to a previous relationship from your estate plan. That includes removing former partners as the beneficiary of retirement accounts, investment accounts, life insurance, or annuities. If you co-owned real estate with a former partner, this situation may also need to be addressed.

**Dissolved Partnerships**

If you were in a domestic partnership but broke up without formally dissolving it, you may still be legally married. How can this be? Some states automatically converted domestic partnerships to marriages after the *Obergefell* ruling. Or, perhaps a same-sex couple was married in a different state than their state of residence (such as a couple living in Texas who got married in Vermont). The couple may have broken up thinking the marriage “didn’t count” because their state of residence didn’t recognize it as a legal union. In reality, the couple in question could still be legally married. Given the complexity of this topic, we should discuss potential pitfalls such as these.

**Marriage Benefits**

Marriage comes with several potential income and estate tax benefits that now apply to all married couples. While there are several reasons to remain unmarried, you may want to consider the marriage benefits now available to LGBTQ+ couples, including:

**Income tax filing.** Married filing jointly status often benefits couples with disparate salaries, and it could also bring a couple’s total tax bill down in certain other situations. For instance, if one spouse makes about $215,000 per year, and as a couple you still make about that much, married filing jointly status would bring the single marginal tax bracket down from 32 percent to a married filing jointly bracket of 24 percent. Married filing jointly can also provide additional deductions and other related tax benefits compared with those available to single filers.

**Unlimited marital deduction.** This is a provision in the U.S. tax law that allows a married person to transfer an unlimited amount of assets to their spouse at any time, including after death, free from tax. So, if you created a trust or other transfer plan to protect assets after the death of a partner, a better option may now be available. A revised estate plan could provide greater flexibility to a surviving spouse.

**Joint tenants by the entireties.** Many states offer married persons a “joint tenants by the entireties” ownership option for real estate and other accounts. This type of ownership offers extra creditor protection to the marital unit. In the event of death, it automatically ensures that a surviving spouse receives the full title of a property.

**Parenting Planning**

If you and your spouse are planning on having children, you should be aware of how the following legalities affect LGBQT+ couples. The rules differ for parents who are married versus those who are unmarried.

**Married couples.** Married couples where one partner gives birth to the child should receive treatment very similar to different-sex couples. The U.S. Supreme Court ruling in *Pavan v. Smith* held that Arkansas could not apply a different parentage assumption to the wife of a birth mother than the state applies to husbands of birth mothers.

If you’re planning on conceiving through assisted reproduction, such as surrogacy, however, you and your spouse will likely have to rely on your state’s adoption procedures. This process is often called a “second-parent adoption” because a co-parent is adopting their partner’s child without terminating the partner’s parental rights. In some states, the “second-parent adoption” procedure is easier for married couples because *Obergefell* requires that all married couples have access to a state’s stepparent adoption procedures.

**Unmarried couples.** Unfortunately, the rules are much tougher for unmarried couples. Some states are still passing laws that deny adoption rights to unmarried persons with no genetic connection to a child—seemingly targeting the LGBTQ+ community directly. As a result, many lawyers encourage same-sex couples to “adopt their own children,” as strange as that sounds. This way, if you and your partner break up and move, states are required to follow the court orders of other states, preserving the rights of both parents.

**Other considerations.** You should also understand that state parentage laws and federal and international laws don't always move in sync. In certain cases, if the genetic parent of a couple's child is not a U.S. citizen, that child may not be granted automatic U.S. citizenship. This is so even if the nongenetic partner is a U.S. citizen and acts as the child's parent. This scenario is most concerning when the child is born abroad, but with appropriate planning, it's possible to ensure that a child can remain with either parent in the future.

**A step forward.** In 2017, the Uniform Law Commission drafted an update to the Uniform Parentage Act that promotes the use of "voluntary acknowledgment of parentage forms." At its core, this proposed law seeks to assign parental rights at the birth of the child to the two people who sought to create a family, whether through assisted reproductive technology or natural birth. As of this writing, however, only five states (California, Connecticut, Rhode Island, Vermont, and Washington) have enacted a law substantially similar to the updated Uniform Parentage Act.

**Other Estate Planning**

A power of attorney provides very important protection for your health care and other estate planning decisions. To prevent these decisions from being challenged, it's wise to have executed a clear statement of your wishes regarding health care treatment options, end-of-life care, and burial decisions. A legal provision known as an *in terrorem* clause can be helpful in preventing challenges to your will or any trusts you've created. As with all estate planning documents, working with a qualified attorney to craft a personalized plan is essential to ensuring your wishes are honored.

**Planning to Protect Your Future**

Whether or not you face the unique estate planning challenges discussed above, it's wise to review your estate plan when laws or your personal situation have changed. If you would like to schedule a review or have any questions about the information presented here, please reach out to us.

*This material has been provided for general informational purposes only and does not constitute either tax or legal advice. Although we go to great lengths to make sure our information is accurate and useful, we recommend you consult a tax preparer, professional tax advisor, or lawyer.*

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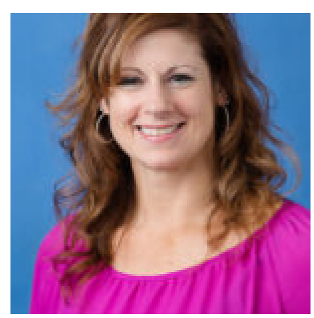
# Why You Need Employment Practices Liability Insurance

From Karen Reed:



Employment practices liability insurance (EPLI) provides coverage to employers against claims made by employees alleging discrimination, wrongful termination, harassment, or other employment-related issues such as failure to promote.

All businesses, regardless of size are vulnerable to employment claims regardless of the number of employees and statistics tell us the average cost for legal defense and compensation for this type of claim can quickly add up to $70,000.

Protect your business by calling us today to obtain a quote for this very important coverage.

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# Meet Nate Van Lonkhuyzen, our 2021 Summer Intern

Abraham Dugal and Nate Van Lonkhuyzen

Nate Van Lonkhuyzen of Rockport is Allen Insurance and Financial’s 2021 summer intern.

Van Lonkhuyzen is an economics major at Colby College in Waterville class of 2023.

Allen Insurance and Financial’s summer internship program creates the opportunity to learn about each of the company’s insurance and financial planning departments. Van Lonkhuyzen’s desk is based in the Allen Financial division and he is working under the guidance of Abe Dugal, financial advisor.

“From my very first day, I have been able to see how what I am being taught in classes is applied in the real world with actual problems,” said Van Lonkhuyzen. “Abe Dugal and (company President) Mike Pierce have introduced me to the high quality, team-focused model Allen Financial maintains. My goal this summer is to learn as much as I can so I can further develop the analytical, interpersonal and problem-solving skills I need for a career in finance. “

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# Health Care Reform: Dependent Coverage Up to Age 26

The Affordable Care Act continues to have an impact on health plans offered by employers. Our monthly overviews of topics addressed by the ACA endeavors to assist you with understanding your role and requirements as an employer. The Allen benefits division is happy to assist you with questions.

Under the ACA, group health plans and health insurance issuers that provide dependent coverage must make coverage available for adult children up to age 26. This ACA Overview summarizes this adult child coverage mandate.

HealthCare.gov

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# Start With the Exclusions

Chris Richmond

By Chris Richmond
Originally Submitted to WorkBoat Magazine

When a boatyard or builder makes an investment in purchasing a building most likely they will want to have the structure insured. But just because you purchase property coverage does not mean that your building is insured for all potential hazards. Two big exclusions on property insurance forms are flood and earth movement, both of which can pose a significant threat to your building.

First things first.  (This is a long sentence, but an important one.) The insurance definition of a flood is a general and temporary condition of partial or complete inundation of two or more acres of normally dry land area or two or more properties from overflow of inland or tidal waters, rapid accumulation or runoff of surface waters from any source, mudflow, collapse or subsidence of land along the shore of a lake or similar body of water as a result of erosion or undermining caused by waves or currents or water exceeding anticipate cyclical levels that result in a flood as defined as above.

If you have a bank loan on your property, most likely the bank will require you to have this flood coverage for at least the amount that is on the loan.  Coverage can be provided through The National Flood Insurance Program. Your premium will vary depending on what flood zone the property is in.

While people talk about earthquake coverage, in the insurance world it actually is referred to as “Earth Movement,” with earthquake being just one of many categories. Besides earthquakes being excluded the Earth Movement list includes landslides, man-made mines, earth sinking and volcanic eruption. Depending on your location, coverage for this can be either bought back from your carrier or as a stand-alone coverage through a specialty broker.

Sage advice when looking at your insurance policies: Start with the exclusions. While it is important to know what you are covered for, it is equally important to know what your policy does not cover. Don’t think that just because you have an insurance policy that everything is covered. Have a conversation with your agent about your coverages to make sure you have what you need.