

IRA & 401(k) Insights

Don't Underestimate the Flexibility of Educational Savings Accounts

By: Dave Owens and Craig Haines

My 31-year-old brother and his wife recently gave birth to their first child and began investigating different educational savings plans. They started looking at the traditional and widespread ways of investing such as CDs, mutual funds, stocks and bonds. However, when my brother analyzed the historical increases in college tuition and compared them to the historical growth of traditional investments, he was quite disappointed.

When the education savings topic arose this past 4th of July at my parents' house in Ohio, I first suggested they open up a Coverdell Educational Savings Account (ESA). I explained a Coverdell ESA can receive tax free distributions to pay qualified education expenses. There is no limit to the number of Coverdell ESAs that can be established for one beneficiary and each ESA may qualify to contribute up to \$2,000 a year. My parents were excited about the idea and said they would each initially contribute to their granddaughter's savings the first year. I further suggested my brother invest in Florida real estate, for I recently moved to Florida and have witnessed the soaring increase in real estate prices. My brother laughed and didn't understand how a new ESA could afford real estate. I agreed—in Ft. Myers where I live, prices are out of reach for new ESAs, but not Charlotte County. Just north of Ft. Myers, you can still find affordable lots around \$15,000 on the Real-

tor® Multiple Listings. My brother rolled his eyes and went outside to light the grill—end of conversation.

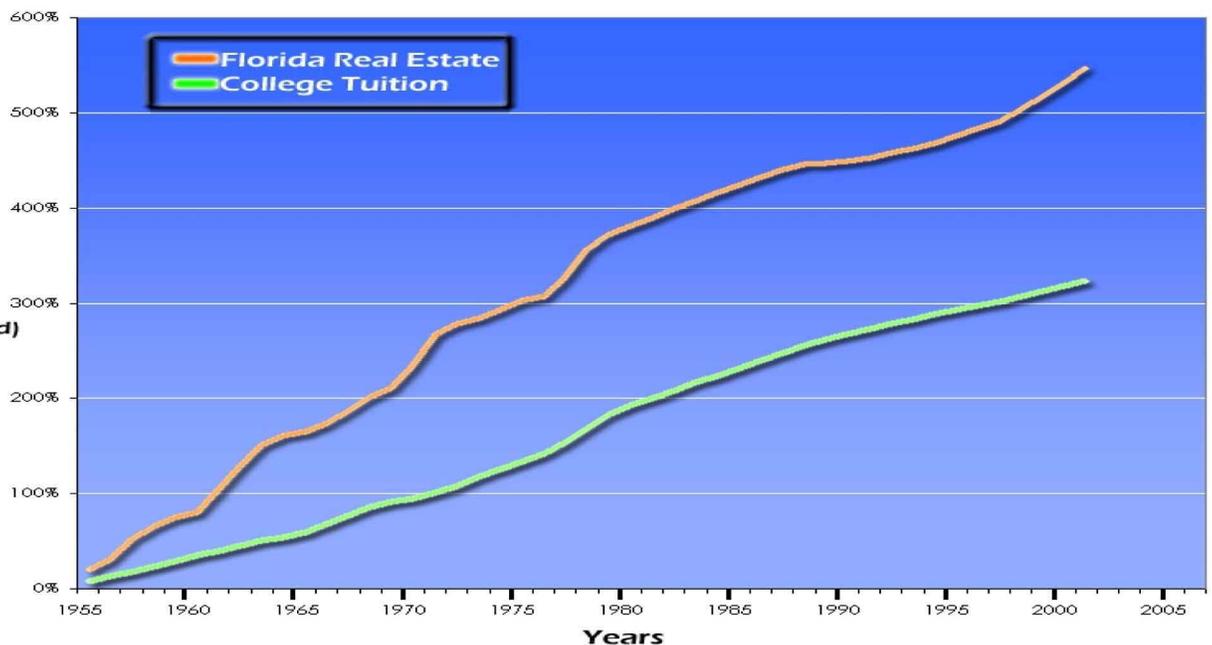
When I went back to Florida I re-ignited our childhood sibling rivalry for I was motivated to prove my brother wrong. The next weekend I printed off the listings for vacant lots for sale and drove 30 minutes north on I-75 and investigated the area's vacant lots. Although there

were only a couple of homes around these sub-divisions, I kept in mind what the area may look like in 18 years. Since I knew what realtors were asking for the lots, I only called "For Sale by Owner" signs. After an hour of burning up fuel, I finally spoke to a seller who needed to pay for

improvements on their home and negotiated a sale price of \$10,000—send the contract! I immediately called my brother and told him the deal I found.

Now that I had his attention, we came up with a plan to find the funds. The grandparents contributed \$2,000 towards the ESA. (Any individual, including the beneficiary can contribute to a Coverdell ESA) The other \$8,000 came from myself, my brother and other siblings. The ESA bought 20% of the asset as tenants in common with the other 80% prorated from the individual investors. The neat thing about self-direction is that you can partner up with almost anyone as long as purchase the

Coverdell ESA can receive tax free distributions to pay qualified education expenses



property has tenants in common. By combining the ESAs with the other investors we were able to purchase the property. The strategy is to carry the children's ESA along with the main investors every time we do a deal. Today, the same Realtor® Multiple Listings in that area have nothing listed under \$20,000, not bad in 4 months.

Vacant Florida land is the best investment for a couple wanting to plan for their child's education. They'll have peace of mind knowing their investment is stable, tangible and unaffected by an Enron or Worldcom type scandal. There are no maintenance headaches and a category 5 hurricane won't affect your vacant property. Florida's real estate values are booming right now, but we are experiencing a cycle—a cycle mainly caused by baby boomers flooding the state. This trend does not plan on abating anytime soon. According to the Census

Bureau, Florida adds about 750 people—net—every day of the year. Even before this cycle, historical data shows Florida real estate values as a whole have never depreciated once in the last 100 years. And when compared to annual college tuition increases from 1958, Florida's real estate has outperformed the increase of earning a diploma. Don't delay anymore, take a Florida vacation, relax in the sun, but spend a few days looking at vacant properties for your child's education. You will be glad you did.

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