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As college expenses rise, CRUTs can do more than plan for retirement

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In the 1971-72 school year, average tuition and fees at a public four-year college cost only $428. By 2014-2015, tuition and fees had ballooned to $9,139. Want to attend a private, four-year nonprofit school? You'd have paid $1,832 back then, and $31,231 today.

This is based on data from the College Board, which compiled tuition and fees for a number of school years between 1971 and 2015. The bottom line is that college is expensive. This, of course, is no surprise. The issue is how families can afford college, and what tools are at their disposal to make this costly expense a bit more manageable.

One such tool is the CRUT, or charitable remainder unitrust. CRUTs are not only valuable in the college planning sphere, they can be repurposed to ensure a tax-efficient, intelligent option for gifting savings from parent to child, all with the intent of covering these rising costs of tuition and fees.

Here is how college expenses have evolved over the years, and why the CRUT can be a smart choice for clients in need of a bit of planning:

"College costs far exceed inflation rate."

Cost of college on the rise
It's common sense that college is getting more and more expensive, right? With inflation working behind the scenes, it's only natural. In reality, inflation isn't really to blame for the rising cost of college. If these expenses increased solely based on inflation, they would have increased between $10,000 and $15,000. Instead, they are growing a whole lot faster than that.

"If you look at the long-term trend, [college tuition] has been rising almost six percent above the rate of inflation," Ray Franke, a professor of education at the University of Massachusetts, Boston, told CNBC. "That's brought immense pressure from the media and general public, asking whether college is still worth it."

Furthermore, CNBC noted that college tuition now makes up about a year of the median household's annual income. In 1971, it only comprised a little over three months' worth. That means families have to work harder and longer to pay for college.

How do families pay?
The next issue becomes how families actually pay for college. Sure, it's expensive, but there are resources out there to help offset the costs.

And those resources have come in handy, but not as much as it may appear. According to a study from Sallie Mae, looking at the 2013-14 school year, 31 percent of the average total cost of college was paid for using grants and scholarships. However, the next highest method wasn't student loans (that came in at 15 percent) but parent income and savings, at 30 percent. Therefore, in close second, one of the most common ways families pay for college is out of their own pockets.

Also on the list were student income and savings at 12 percent, parent borrowing at 7 percent, and relatives and friends at 4 percent. Overall, though, families were mainly searching for help. Sallie Mae reported that 81 percent filed for financial aid and 66 percent used some amount of grants and scholarships, for that 31 percent of total costs. This illustrates the need for college planning and effective savings techniques, so parents and students aren't paying so much out-of-pocket.

What CRUTs can do
This is where CRUTs come into play. Through a charitable remainder unitrust, a donor (in this case, the parent) can transfer some sort of appreciated asset into the trust. Naturally, common options are securities and cash. The trust then pays out a percentage of its principal to a beneficiary (in this case, the student). And the ins and outs of this type of irrevocable trust make it ideal for college planning.

CRUTs are beneficial because they help both the parent and the child. For the parent, he or she gets a tax deduction on the amount placed in the trust. Parents also don't pay capital gains tax and can make additional contributions at a later date, with the same tax benefits included. For the student, he or she can receive the payout with a minimal tax impact. Plus, the student will also have a significant amount of college savings, if the trust is created years in advance. The trust is also revalued each year, with changes made depending on the current market.

"My experience is, most people prefer to do a CRUT because they're thinking of this long-term; they have an asset they would like to make a gift of, but they don't feel comfortable simply giving it outright," Ami Sadler, associated vice president of gift planning at the University of Colorado, told Bankrate.

"Tax perks of CRUTs make them ideal for college planning."

CRUTs can increase savings
Another key reason why CRUTs can be so beneficial for college planning is how the tax rules can bolster payouts to students. This is emphasized when the appreciated asset placed in the trust is stock or another security, not just cash.

For example, a parent with appreciated stocks can simply sell them and give the proceeds to their child for college expenses. However, doing so would incur the capital gains tax, which would eat into the amount gifted. On the other hand, placing that stock in a CRUT means the student will eventually receive the full amount - with no capital gains tax. They'll get slightly more money to use for college.

Even so, CRUTs are not without risk. As noted previously, the trust is revalued each year. That means the asset can shrink or expand depending on the market, which will affect the final payout. They are also irrevocable, and the benefit for the student is established when the contribution is first determined. Should something happen in the future that requires more money, there is little that can be done with this specific trust.

With that said, though, CRUTs are still a smart, reasonable college planning vehicle. Given the tax benefits, these trusts may be the most viable option to ensure a student has enough money to pay for college. And with the rising costs of said education, this is a very important consideration for today's families.

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