



Saving For Education

The headlines are enough to make a parent's heart race. "Grads leave school with two Ds: diploma and debt." "New baby? Expect her college bill to triple."

It's true. College costs continue to rise, but a college degree remains an excellent investment. And with planning, most families can find a way to afford higher education.

Here are a few things to consider:

- **Keep costs in perspective.** News stories tend to focus on colleges with the highest price tags, but most students don't pay nearly that much. The College Board calculates the average cost of tuition and fees (not including room and board) at a four-year public college or university was \$3,754 in 2001-2002 and \$17,123 at a private school. Many students received financial aid and 45 percent attended public two-year colleges with lower tuition and cost savings of living at home.
- **Save, save, save.** Some parents are concerned that their savings will reduce their chance for financial aid. While it's true that most aid is awarded based on financial need, the majority of aid is in loans, which have to be repaid. According to FinAid (National Association of Student Financial Aid Administrators), parents can expect to pay one-half to two-thirds of their children's college costs through savings, current income, and loans. Using savings is usually preferable to a loan.
- **Start early.** The sooner you begin to save, the more time you will have for your money to grow. To estimate how your savings will grow over time, check out the College Board's online college savings calculator at www.collegeboard.com.
- **Decide in whose name you will save.** Most advisers recommend saving for college in the parent's or in some cases a grandparent's name to improve the chances of qualifying for financial aid based on aid formulas.
- **Check out your investment options.** You can invest your college savings in anything you choose: stocks, bonds, mutual funds, U.S. savings bonds, and certificates of deposit are just some of the choices. You should study special college savings plans, such as 529 plans and Coverdell education savings accounts. You may want to consult a financial planner about the limitations or various options.
 - **529 plans.** State-sponsored qualified tuition programs, commonly known as "529 plans" for the section of the tax code that authorizes them, are helping millions of Americans save for higher education. No two 529 plans are exactly alike, so it's important to study a plan's features in detail. To learn more about 529 plans, check out an online brochure produced by College Savings Plans Network, the North American Securities Administrators Association, and the Investment Company Institute. Link to: www.nasaa.org/Investor_Education/Financial_Education_Resources/2010.cfm or go to the College Savings Plans Network's Web site at www.collegesavings.org.
 - **Coverdell Education Savings Accounts (ESAs).** Formerly known as Education IRAs, these accounts let families put away \$2,000 per beneficiary, per year, and use the money tax-free to pay for education costs. You choose how to invest the money. Keep in mind, however, that there are income restrictions to make full contributions to a Coverdell account.
- **Take advantage of tax breaks.** Depending on your income, you may be able to take the Hope and Lifetime Learning tax credits in the years you pay tuition. Or, you may qualify for a higher education expense deduction that will be in effect from 2002 through 2005.
- **Don't jeopardize your retirement.** You may withdraw Roth IRA contributions to pay for college expenses without an early withdrawal penalty. However, most financial experts caution parents not to raid their retirement funds to pay for college. Your child has more avenues to pay for college than you have to save for retirement.

- **Apply for financial aid.** Financial aid comes in grants, scholarships, work-study, and loans. No matter your savings or earnings, apply for financial aid. You might be pleasantly surprised. Also don't automatically discount colleges with higher costs. You might be asked to contribute the same amount as at a lower-cost college. To learn more about financial aid and your expected family contribution, visit the College Board's Web site at www.collegeboard.com, or FinAid's Web site at www.finaid.org.
- **Consider other ways to pay.** If your savings goal comes up short, your student can work during college (some employers provide education assistance), or consider joining the military as a way to earn money to pay for college expenses. Service through AmeriCorps, Learn & Serve America, VISTA and Peace Corps may qualify for money to help pay for school or forgiveness of educational loans.

Additional Resources:

- "Planning for the Costs of Higher Education," FPA brochure online at www.fpanet.org/public/tools/education.cfm
- "A Guide to Understanding 529 Plans" brochure published by North American Securities Administrators Association, Investment Company Institute, and College Savings Plans Network, online at www.nasaa.org/Investor_Education/Financial_Education_Resources/2010.cfm
- College Board (www.collegeboard.com)
- FinAid (National Association of Student Financial Aid Administrators (www.finaid.org))
- Kiplinger.com: Planning Center: College (www.kiplinger.com/planning/college/)
- Money.CNN (www.money.cnn.com/pf/101/lessons/11)

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