

Saving for College?

Know Your Options

The cost of a college education may be daunting for many people and/or families. If you are fortunate enough to have sufficient time to save, your road to paying for a higher education for your children will be a lot less difficult. Choosing between a public or private institution can also make a big difference in how much you will need to save. If you qualify, financial aid may also be a factor.

So...today's the day you've decided to implement a comprehensive savings program geared toward paying future college tuition. Here are some valuable options for help in accumulating the necessary amount of money:

- o **Certificates of Deposit (CDs).** Bank CDs offer safety of principal and guaranteed returns. However, interest is subject to tax and current rates are generally low.

- o **Individual Retirement Accounts (IRAs).** The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) created additional savings opportunities with Coverdell Education Savings Accounts. Also, penalty-free (but not tax-free) early withdrawals can be made from **expanded deductible IRAs**, as long as the withdrawals are used for qualified education expenses.

- o **State-Sponsored 529 Savings Programs.** Although many details of 529 plans (named for the section of the Internal Revenue Code under which they are established) vary by state, they generally come in two forms. **Prepaid tuition** programs allow participants to "lock in" tuition rates at eligible state colleges or universities with a lump-sum investment or monthly installment payments. The contract value may also be applied to private or out-of-state schools (although possibly not at full value, depending on the state). **Savings** programs allow contributions to vary and can be applied at any accredited institution of higher education nationwide.

- o **Financial Aid.** There are a number of financial aid programs available, typically in the form of loans, grants, work study programs, or scholarships. Eligibility for such programs is determined by an assessment of your financial situation that includes your income, your assets, your child's income, and your child's assets.

- o **Loans.** Several types of loans may be available. If you have adequate credit, you might qualify for a **personal line of credit** loan. This is typically the most expensive loan option. Some individuals might contemplate a **home equity** loan. Although interest from such loans may be tax deductible, these loans tend to have rates that are much higher than conventional mortgages. If you have a **401(k) plan**, you may be able to borrow from your plan assets. In some instances, **life insurance** policy **cash values**

can also be borrowed to help supplement college costs. Finally, your child may be eligible for a **student loan**. These loans tend to have reduced rates and flexible repayment options.

o **Scholarships.** A select group of students are fortunate enough to qualify for scholarships from a college or university of their choice. In addition, some children may qualify for partial scholarships from other academic organizations and foundations.

Begin Planning Now

It's never too early to begin your child's college funding plan. As time goes by, you will need to re-evaluate whether you are using the appropriate savings vehicles, and whether or not you will have a funding shortfall. If you can anticipate your savings will fall short of covering your child's entire college bill, you will be in a better position to thoroughly explore and potentially take advantage of alternative funding options. However, keep in mind, like other types of financial planning, your child's college funding plan requires a *disciplined* approach that emphasizes consistency with your overall goals and objectives.

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