

COLLEGE FUNDING OPTIONS

Several ways to save for tuition and/or expenses.

provided by Rob Harrison

How do families meet college costs today? They save early and often. You should too. Here are some college savings vehicles to consider.

529 plans. These state-sponsored college savings plans let you put away up to \$12,000 per year for your child's college costs without having to file an IRS gift tax return. (The plans in some states have no contribution limits - and you don't have to live in those states to invest in those plans.) You can even "frontload" a 529 plan and put in \$60,000 to start (\$120,000 for a married couple) without triggering the gift tax. The money you invest grows tax-deferred, and withdrawals are tax-free as long as the money is used for college expenses. If your child doesn't want to go to college, you can change the beneficiary to another member of the family.^{1,2}

Coverdell ESAs. Single filers with modified adjusted gross income (MAGI) of less than \$95,000 and joint filers with MAGI of less than \$190,000 can pour up to \$2,000 annually into these tax-advantaged accounts. The money saved and invested can be used for college or K-12 education expenses. Contributions aren't tax-deductible, but the account enjoys tax-deferred growth and withdrawals are usually tax-free. Contributions may be made until the account beneficiary turns 18. The money must be withdrawn when the beneficiary turns 30. After 2010, there is a chance that the annual contribution limit on a Coverdell ESA may drop to \$500.^{2,3,4}

UGMAs & UTMAs. These all-purpose savings and investment accounts are often used to save for college. When you put money in the account, you are making an irrevocable gift to your child. You manage the account assets. When your child turns 18 - or 21 in some states - he or she can use the money to pay for college. There are two caveats: 1) your child can actually use the money for anything, 2) the money withdrawn from the account is considered income and might lessen your child's chances to qualify for financial aid.⁵

Cash value life insurance. If you have a whole or variable life insurance policy, you can borrow from, withdraw against, or even cash out the policy to meet college costs. You can make tax-free withdrawals from such a policy as long as you don't exceed the cost or "basis," or the total amount of premiums paid.⁶

Mutual funds. Lastly, you can put a professional money manager in charge of your college savings and invest for college with a mutual fund. Yes, many of them took huge hits in 2008, but for the long term, they remain a strong and viable option.

Parents and grandparents can save at the same time. Grandparents can start a 529 plan - or other college savings vehicle - just as parents can. The earlier, the better. Talk to a financial advisor today about these savings methods. It will be great for you and your child if he or she graduates from college debt-free.

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Citations.

¹ usatoday.com/money/perfi/columnist/block/2007-11-12-529-plans_N.htm [11/12/07]

² investors.com/editorial/IBDArticles.asp?artsec=19&issue=20081031 [10/31/08]

³ 360financialliteracy.org/Life+Stages/College/Articles/Paying+for+College/The+best+ways+to+save+for+college.htm
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⁵ aarpfinancial.com/content/resource/investing/ugma_utma.cfm [11/21/08]

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