Start STUDYING

College Savings Strategies

Students are heading to college – and their parents, with varying degrees of gloom, will be reaching for their checkbooks. Higher education carries some high costs – so, if you have children or grandchildren, you'll want to prepare yourself. Just how expensive is college? During the 2003-2004 academic year, the average total charges – tuition, fees, room and board – at a four-year public institution was $10,636, while the comparable average cost for a four-year private school was $26,854, according to the College Board. And college costs have been rising faster than the general rate of inflation; when your child is ready to move into the dorm, you could be looking at considerably higher numbers.Therefore, you may want to consider college-funding vehicles:

- **Section 529 plans** – these are offered as prepaid tuition plans or college savings plans. Many states now offer both options. If you choose a prepaid plan, you can lock in future tuition at in-state public schools at today's prices. So, if you're certain your future collegian will be attending "State U," a prepaid plan may be right for you. Most people, however, find that a college savings plan offers greater freedom. You can use the plan to pay for tuition at virtually any college or university, in any state.

In a savings plan, you put money into specific investments that are managed by the plan administrator. If you participate in your own state's Section 529 plan, you may be able to deduct contributions from your state income taxes. Savings plan contribution limits are typically quite high, and all withdrawals are free from federal income taxes, as long as the money is used for qualified college or grad school expenses. Withdrawals for expenses other than qualified education expenditures may be subject to federal, state and penalty taxes.

(Section 529 tax benefits are effective through 2010, unless extended by Congress. Also, a Section 529 plan could reduce a child's ability to qualify for financial aid. Because tax issues for Section 529 plans can be complicated, please consult your tax adviser.)

- **Coverdell Education Savings Account** – Depending on your income level, you can contribute up to $2,000 annually to this account. Your Coverdell earnings and withdrawals will be tax-free, provided you use the money for qualified education expenses. (Any non-education withdrawals may be subject to a 10 percent penalty.) You can fund your Coverdell account with virtually any investment – stocks, bonds, certificates of deposit, etc. You can also open Coverdell accounts for all your children or grandchildren, but you cannot contribute more than $2,000 per year to any one account. Other people may also establish accounts for your children or grandchildren, but the total annual amount contributed must not exceed $2,000 per beneficiary.

By investing in the aforementioned savings vehicles, you can help insulate yourself from the "sticker shock" you may feel when you send your kids off to college. As with virtually all investments, however, these work best when you put a lot of time in them, so start saving soon.

Information courtesy Edward Jones.