



Daniel Gibson

# College savings plans offer real savings opportunities

By Daniel Gibson

While the investment markets continue to provide the media with negative headlines, many investors have missed the good news about recently enacted college savings opportunities. For parents who have put off saving for their children's education, now is the time to learn more about these financial options.

To begin this process, investigate the costs involved and set attainable goals based on your resources. Currently, a college education—including tuition, fees, books, and supplies—is estimated at \$13,000 a year at five-year public universities (in-state) and \$28,000 a year at private institutions (2002 Survey of Colleges by The College Board). For information on tuition costs at specific institutions and a college cost calculator, go to [www.collegeboard.com](http://www.collegeboard.com).

Another website, [www.fafsa.ed.gov/](http://www.fafsa.ed.gov/), includes information on completing the Free Application For Federal Student Aid (FAFSA). Parents with children who are high school graduates can complete the form to determine their eligibility

for aid from the various Federal Student Aid (FSA) programs. If you do not qualify for aid, contact the financial aid office at your child's school(s) of choice for other scholarship and borrowing options.

Once you've estimated your potential costs, you can assess the following college savings plans:

## Section 529 Plans

All states currently sponsor a 529 plan that consists of a savings plan and/or a prepaid tuition plan. The savings plan version, which was enhanced with the passing of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), is increasingly becoming the most popular college funding program. EGTRRA allows distributions for higher education to be entirely tax-free for federal income tax purposes and—in most jurisdictions—for state and local income tax purposes. (While it is likely that legislation will make these current benefits permanent, this tax treatment will remain in place through 2010 and then revert to pre-2002 law in 2011 under current law.) Prior to EGTRRA, 529 plans allowed for tax deferral (and rate shifting) as earnings built up within the plan. The earnings portion was then taxed to the student, who was usually in a lower tax bracket than the account owner.

It is also important to note that 529 plans have no family income

restrictions and can be used to pay expenses at any accredited school of higher education throughout the United States.

For federal gift tax purposes, 529 plan contributions are considered a completed gift to the designated beneficiary of the account and qualify for the annual gift tax exclusion, which is currently \$11,000. If your gift for any year exceeds the annual exclusion amount for a particular individual, you may elect to treat the gift as being made pro-rata over a five-year period.

Due to the tax benefits, you will want to first consider the program offered by your state of residence. In Wisconsin, residents can deduct up to \$3000 per year per child or grandchild against Wisconsin income. Edvest, Wisconsin's savings plan, can be set up online at [www.edvestonline.com](http://www.edvestonline.com) and allows for contributions as little as \$25 per month when setting up an automatic investment plan, a \$250 lump sum, or as much as \$246,000.

## Additional College Savings Options

An Educational IRA can be used to cover college costs, as well as pay tuition at elementary and secondary schools. Currently, \$2000 can be contributed annually for taxpayers with adjusted gross incomes less than \$220,000 for joint filers (\$110,000 for single filers). These accounts also offer many invest-

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ment options, making them appealing to anyone looking for greater investment control.

Until several years ago, UGMA/UTMA Custodial Accounts were the preferred way to fund college costs because they allowed participants to shift a portion of income to their children. Unfortunately, because the donor is making an irrevocable gift of assets, you get no guarantees regarding how these funds will be utilized. In addition, these accounts may reduce a student's eligibility for financial aid and college loans.

When planning for your children's educations, establishing a long-term relationship with a financial planner can be incredibly beneficial. If you would like more information about these programs, contact one of our financial planning professionals at 800.279.2616.



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