

# Financial Planning Matters: Saving for College

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The bad news - college costs keep going up. College costs have increased by an average of nearly 8% each year for the past 20 years, which is almost twice as much as the general inflation rate. So, if you are using one of the many college cost calculators available on the internet, it may be wise to use an 8% inflation factor.

The good news – There are several tax-advantaged college savings vehicles for you to use. While no one plan is the “best” way to save, you can choose the best one for you or use a combination of plans. Here are your choices:

**1** Roth IRA account – Contributions made to a Roth IRA and held for 5 years can be used to pay college tuition costs. If you dip into the earnings before you attain age 59 ½, you will be subject to taxes on the earnings, but not a 10% penalty. If your child doesn't end up going to college, you can use the money for your own retirement. These assets are considered to be retirement plans and are generally not considered when applying for financial aid. The Roth IRA gives you the most flexibility in planning for college and retirement.

**2** Coverdell Education Savings account - \$2,000 per child is the maximum annual contribution. Earnings are tax-free. Assets in a Coverdell account are considered property of the student and can potentially reduce as student's financial-aid package.

**3** Savings bonds for education - The US savings bonds are registered in the parent's name but the income is tax-free when used for qualified college expenses. This keeps the money available to the parents for financial emergencies. If married and filing jointly your marginal adjusted gross income needs to be less than \$98,400 to qualify for the tax-free income status on the bonds when they are redeemed.

**4** 529 plans have tax-free earnings both during accumulation and at distribution if the funds are used to pay for qualified education expenses. If one child doesn't end up going to college or using all of the money, assets can be transferred within the immediate family to another child. If funds are not used for college, you will pay taxes on the earnings when you distribute the funds.

529 plans sponsored by the state of your residence are generally more advantageous than plans sponsored by your broker. In Iowa, Wisconsin, Michigan, Colorado, Louisiana, Ohio, Oklahoma, North Dakota and Nebraska, state tax deductions are available if you use the state sponsored plans. In Minnesota, using the state sponsored plan may qualify you to apply for a matching grant if your family income is less than \$80,000. 529 plan dollars are considered assets of the owner, (generally the parent), not the student, when considering a financial aid package.

**Don't deliberate too long on a plan to save for education. Saving something is much better than delaying.**



**5** Bank savings accounts, investment accounts and other forms of savings can also be effective tools for saving for college, but these are not tax-advantaged. You may be able to take advantage of the Hope Education tax credit and the Lifetime Learning tax credit if your marginal adjusted gross income is less than \$114,000 for a married couple filing a joint return.

Don't deliberate too long on a plan to save for education. Saving something is much better than delaying. If you save \$166 per month for the next 17 years at a rate of 6% you will have nearly \$58,000 for college. \$24,000 of that could be tax-free earnings.

**If a Roth IRA is one of your education funding choices, be sure to call your wfla agent for more information.**

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