Education Funding Options for the Growing Family

You just received the wonderful news that you and your spouse are going to become parents. Thoughts of the many adventures that parenting will bring are swirling through your head. The last thing that may be on your mind is paying for college, but thinking about it *now* may save you *later*. The cost of a four-year degree at a private college averages over $140,000 (Source: *Trends in College Pricing—2009*, The College Board).

However, even if you are aware of the importance of saving for an education, you may be unsure as to what options are available to you. The following is an exploration of the most common college savings vehicles:

o 529 Plans. 529 plans come in two forms—prepaid tuition plans and college savings plans. Prepaid tuition plans allow you to buy future tuition at today's prices. College savings plans, on the other hand, offer tax benefits and a variety of investment options. Earnings grow tax-deferred and qualified withdrawals are tax free. Nonqualified withdrawals are subject to income tax, as well as a 10% federal income tax penalty.

o Coverdell Education Savings Accounts (ESAs). You can contribute $2,000 annually to an ESA, and funds may be used to pay for elementary and secondary education, in addition to college expenses. One major advantage of Coverdell ESAs is that if the funds are used to pay for qualified education expenses (e.g., room and board), earnings will not be taxed. Certain income limits may apply.

o Series EE Savings Bonds. These types of savings bonds usually can be purchased and/or redeemed at your local bank. They are issued in denominations that are half of the bond's face value ranging from $50 to $10,000. For example, a $50 bond would cost $25. Depending on your income tax bracket, EE savings bonds may offer state and local tax-deductible interest. When used for qualified education expenses, interest may be free of state and federal taxes, as well. However, they are generally subject to federal income tax, and early redemption penalties may apply if the bond is redeemed in the first five years. Another possible advantage to savings bonds is that they may be purchased by anyone for your child, for any occasion.

o Uniform Gifts to Minors Act (UGMA) and Uniform Transfers to Minors Act (UTMA). UGMA and UTMA accounts are custodial accounts. You may make unlimited contributions to such accounts, and the funds may be used for whatever purchases you deem appropriate. The UGMA account is particularly useful if you are considering purchasing stocks or mutual funds for your child to help save for education. More specifically, UGMA typically authorizes the transfers of cash, bank accounts, stocks, and mutual funds to minors without the need for an attorney; an UTMA account authorizes expanded transfers, including real estate, and royalties. For both UGMA and UTMA accounts, a portion of the earnings may be tax free or taxed at the child's rate, generally a lower figure. You may make unlimited contributions to such accounts, and the funds may be used for whatever purchases you deem appropriate.

The last option you might consider when saving for your child's future education may be a simple bank savings account. Although bank savings accounts may offer immediate liquidity and versatility, there are no tax advantages, and given their low risk, the earning potential is very low. Therefore, when it comes to saving for education, it may not be the most beneficial choice.

Start Now

So, if you are wondering whether you should begin saving for your child's education *now*, the answer is yes. Regardless of which option you choose, beginning *today* to save for a child's education will help ensure your child a more secure *tomorrow*.