

Planning for your child's college expenses

It can feel like a dark cloud hanging overhead – the upcoming expense of your child's college education. Whether your child is one month or 16 years old, it's never too late to start putting some money away to invest in your child's future.

529 college savings plans

A 529 allows you to save money to pay for your child's college education tax-free. If the money is used on higher education, you won't be taxed on the withdrawal either.

Usually, the money must be used on tuition, room, board, or certain supplies required for college enrollment, or you may have to pay a penalty and taxes.

Prepaid tuition plans

When you set up a prepaid tuition plan, you "lock in" today's tuition prices. In general, these plans must be used on colleges within your state to get the lower tuition rate.

Savings accounts

You can set up a savings account in your child's name that you manage. This is called a custodial account. When your child is old enough, he or she can access the funds.

IRA and Roth IRA accounts

IRAs, or individual retirement accounts, are investment accounts that let you save without getting taxes taken out.

With a deductible IRA, you must claim your money that goes into the IRA as tax deductible. Then, taxes are incurred when you withdraw the savings later.

If you put money into a Roth IRA, your earnings are tax-free if you wait to withdraw them after five years – and if they're used for college tuition.

Coverdell education savings accounts (ESA)

Coverdell ESAs are like an IRA for college. If the money is used for education, you won't pay any taxes when you withdraw it.

Because each family's budget and needs are different, there is no single solution that works for everyone. Carefully consider the pros and cons of each option before you move forward.

Before you begin saving for college....

If possible, talk with a financial advisor before you begin. Some plans, such as a deductible IRA, may depend upon your income and other factors. And, an expert in the field can help you choose the best option for your situation.



Ask questions. Be sure to ask the representative about:

- Fees and commissions to pay
- When and how taxes are incurred on the money you invest
- Interest you may earn
- Risk involved with investments
- Whether you can use the money for other things (if your child doesn't go to college or gets a full scholarship, for instance)
- Whether the money must be used in-state

Don't forget about federal loans, which are an option for many families – especially if college is right around the corner.

