

COLLEGE CORNER

An Education In College Savings Plans

(NAPSA)—While sending a child off to college can be one of a parent's proudest moments, saving for a child's education can be one of the most challenging.

With college costs rising faster than inflation, average total expenses at a public university are now \$12,000 a year, according to the College Board. At a private college, the average cost is \$26,100. Using a five percent annual growth rate, the projected cost of a four-year college education 18 years from now is \$124,200 at a public university and \$270,600 at a private college.

Fortunately, saving for college has become easier, thanks to state-sponsored college savings plans known as "529 plans." Managed by an investment management firm, the assets in a college savings plan grow tax-deferred and can be used to cover expenses at any eligible U.S. college, university or technical school. Thanks to a recent tax law change, earnings are also federally income tax-free when used to pay for qualified higher education expenses.

The potential savings can be significant, particularly when compared with investing in a taxable account. Consider a parent in the 27 percent tax bracket who contributes \$5,000 to a child's college fund each year. After 18 years, if the money had been placed in a 529 plan, the total after-tax amount available for college expenses would be about \$220,000, or 19 percent more than with a taxable account. Both investments assume a total return of eight percent compounded annually and a state tax rate of five percent. Since fees affect the total returns for 529 plans as they do for other investments, many financial planners also suggest that investors consider plans offering no-load invest-



A 529 plan can help parents save more for their child's college education.

ments, which tend to have lower expenses.

To help families estimate their own college expenses and decide how much they may need to save in a 529 plan to reach their goals, T. Rowe Price offers a free College Investment Calculator. Available at www.troweprice.com, the calculator simulates how the securities markets could perform in the future to estimate the chances the investment goals will be met. Investors can also project what their existing college savings would grow to in a 529 plan by the time their children begin college.

For example, using the projected four-year cost of a public college in 2020, the calculator shows that with a 95 percent likelihood of success, an investor would need to save \$412 monthly for 18 years to meet that goal. If the investor reduces the success rate to 75 percent, the monthly investment needed would drop to \$340.

For a free guide to college investment planning or information on the T. Rowe Price College Savings Plan, sponsored by the Education Trust of Alaska, call 1-877-325-7996 or visit www.troweprice.com/college_savings.