COLLEGE PLANNING

Saving For College—What A Concept!

by Timothy Lane

(NAPSA)—Based on the latest expense figures from The College Board's *Annual Survey of Colleges*, parents of a child born this year can expect the average cost of a four-year college education for their bundle of joy to range from $117,000 at public universities to nearly $260,000 at private universities by 2019.

Lane

This staggering projection is compounded by the fact that parents have not been saving adequately. Consequently, more and more students are being burdened with larger and larger loans. In fact, borrowed money now represents 59 percent of all financial aid, compared with 41 percent in 1980.*

To help reverse this trend, most states have been introducing college savings programs that offer attractive tax advantages to help parents and others save for their children's higher education. Called Qualified State Tuition Programs, they are governed under Section 529 of the Internal Revenue Code, and have a range of helpful features and requirements:

- Federal and state income tax advantages.
- Ability in most states to invest substantial amounts in various investment options.
- No income limit for participation or for benefits.
- Flexibility to choose among nearly all colleges and universities in the U.S. and some abroad.
- Account owner (typically the parent) control over assets even after the beneficiary (eventual student) reaches the age of majority.
- Estate and gift tax benefits.

Tax Benefits

Starting January 1, 2002, the new federal tax law will allow earnings on qualified withdrawals to be free from federal income tax. Combine that with the fact that earnings on qualified withdrawals are either tax deferred or tax free on the state level and the benefit is obvious—a much larger college nest egg.

But that's not all. Some states, such as Idaho, Michigan, Mississippi, Missouri and New York, offer sizable state income tax deductions for plan contributions.

Estate Planning

The programs also offer gift and estate tax benefits that can be significant. For instance, contributions can be treated as completed gifts that qualify for the $10,000 annual federal gift-tax exclusion. In addition, an account owner (parent, grandparent, relative) can deposit as much as $50,000 as a gift in a single year without incurring tax consequences by simply taking the exclusion over five years. **

Investment Options

The core investment option of many state plans is a managed-allocation, age-based approach, where assets are shifted from equities to more conservative, fixed-income investments as college years approach. Key benefits of this investment option include professional asset allocation and fund management with less of a decision-making burden on the account owner.

Some states, in response to public demand, are offering broader choices. California's ScholarShare program, for example, has a diversified 100 percent equity option, a Social Choice equity option and a guaranteed option to go along with its managed allocation option.

Do Your Homework

When researching these programs, parents should understand their own appetite for risk and their child's likely educational needs. Other important considerations are the state-specific tax benefits, including any available deductions or matching contributions; management expenses and any other fees; the experiences and investment track record of the program manager; and the type of investment options.

To learn more about Qualified State Tuition Programs, call TIAA-CREF Tuition Financing Inc.—a subsidiary of Teachers Insurance and Annuity Association—at 888-381-8283 or visit www.tiaa-cref.org/tuition.

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** The College Board, Trends in Student Aid 2000*

*** Presumes no other gifts made to the beneficiary during the five year period.*