College Savings Trends

Angst Over Rising College Costs Turns Teens Into Bigger Savers Than Their Parents

(NAPSA)—If you're Pollyannish, the good news is that today's teens are bigger savers than their parents were at the same age.

Then again, some may feel pressured to save out of concern their families might not otherwise be able to afford to put them through college.

With even the wealthiest families' net worth having taken a beating in the recession, a new Opinion Research Corporation survey found that having to help parents finance their college educations was the biggest reason why so many teens—87 percent—said they banked "some portion" of whatever money they receive each month versus just 56 percent of adults who recalled being young savers. Tuition costs specifically weighed on the minds of 62 percent of those teens questioned.

Just to show you how much times have changed, back when those adults surveyed—Gen Xers, Gen Yers and the youngest of the baby boomers—were teenagers, most of them saved up to buy clothes and accessories.

"Today's teens have grown up with an understanding that paying for college is a challenge for most American families," says Diane Young, director for retirement and goal planning at TD Ameritrade. "And since they see higher education as essential to their future success, it's not surprising that they're taking the initiative to start saving now."

They'll have to stash away a lot of bucks.

Right now, tuition and room-and-board expenses at public universities average $14,333 per year for in-state students and $25,200 for those out of state, according to College Board data. And by the time today's Gen Zer is freshman age, the only safer bet than private university costs being higher than they already are—an average of $34,132 annually—may be that the world will be even more globally competitive.

Families rejoice on graduation day after years of saving for college.

One sign that teens are serious about helping foot those bills is that 41 percent of those surveyed had heard of 529 college savings plans. (The "529" refers to a section of the IRS tax code. Immediately, that should be a tip-off that the federal and most state governments have loaded the plans' three different tax-advantaged versions with what SmartMoney.com calls "plenty of perks to make [them] an exceptionally attractive tool" for funding a child's education.)

Young says the trick is sorting through "the pros and cons" of each, as well as the lesser-known (but also perky) Coverdell education savings accounts, to determine which is right for you. While it's recommended that you consult with a tax adviser regarding your personal tax situation, TD Ameritrade's own Web site can walk you through the process, starting with access to a "College Planner" tool that helps families estimate how much they'll need to save by answering a series of questions. From there, you can choose among:

- Standard 529s, which work much like a 401(k) or IRA and let you sock away as much as $300,000 or so, per beneficiary, in some states. While not deductible on federal tax returns, there's no tax on earnings or qualified educational distributions, and certain states—you needn't stick to your own if you don't like its options—sweeten things for residents with upfront deductions on contributions.
- Prepaid 529s, which let you lock in public colleges' current tuition by prepaying all or part of the bill through the purchase of "tuition units" or "contracts" issued by the schools. However, only 18 states now offer this option, and most restrict participation to residents.
- Independent 529 plans, which are basically prepaid plans for private universities. Should your son or daughter wind up not attending one of these schools, the money is returned—plus or minus an annualized 2 percent, depending on the performance of the trust holding the money.
- Coverdell accounts, which limit annual contributions to $2,000, but—unlike 529s—also permit spending on certain qualified kindergarten through 12th-grade expenses.

As for all that teen angst, one way to ease it is through what Young calls a "parent match" that commits adults to contributing a certain amount for every dollar your child saves.

Be warned: Unlike at companies, kids can't be fired to get out of it.

For more info on saving for college, visit www.tdameritrade.com (member FINRA/SIPC).