

How to Plan and Manage to Send your Childâ??or Childrenâ??to College

By Jane Leibbrand

If youâ??re reading this, youâ??re likely a parent trying to figure out how to save for your childâ??s college education without â??breaking the bank.â?• Congratulations. Youâ??ve taken a first step toward a long-term goal that too many parents avoid.

A Sallie Mae 2017 study, â??*How America Pays for College*,â?• reports that more than 85 percent of parents expect their child to go to college, but only 36 percent plan how to pay for it.[1] Amid all the expenses of having a child, from buying diapers to feeding an adolescent, itâ??s easy to punt the ball down the field, thinking that college costs are years away. But procrastinating could cost you thousands of dollars.

How Parents Pay for College Now

Learning how parents pay for college now can help allay your fears about college costs. Having some data points can help you form a realistic goal. Here are the main categories of resources that fund the college experience now.

You may be surprised that parentsâ?? savings, on average, cover less than a quarter of the cost of college. If you have the resources and can pay for the full cost of college so that your child wonâ??t have debt afterward, thatâ??s great. But if doing so would present hardship and stop you from saving for your retirement or having vacations, itâ??s critical to your well-being to understand that there are

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many other options. And with a sound plan, you can avoid having your child saddled with hefty student loans to pay back.

If youâ??ve looked at the cost of tuition, room, and board recently compared to when you went to college, youâ??re aware that these costs have skyrocketed. Many students end up borrowing. According to the College Board, the average amount of debt for students who have borrowed for college is between $24,000 and $30,000â??but almost 20 percent of students have over $50,000 in debt after graduation.

Student loans have become a major albatross for todayâ??s college graduates. Following are some simple steps to take to make a substantial contribution to college costs so that your child isnâ??t saddled with loans that take years to pay off.

Saving Early Pays Big Dividends

CAPTRUST Financial Advisor Danny Summerlin says many clients with young children avoid the subject of saving for college. Their perspective? Itâ??s just so many years down the road. But Summerlin always includes the cost of college in meetings with clients who are new parents or who are expecting. â??Itâ??s our role as advisors to start the conversation, stimulate action, and drive results. Itâ??s critical to start saving for college as early as possibleâ??beginning when your child is born or even prior to the birth. This way, youâ??ll find that time is on your side,â?• he says.

Set a Goal

Setting a goal for the amount youâ??d like to have saved for your childâ??s college years will help start you on your journey. How do you know the amount youâ??ll need in 18 years? Summerlin says he and other CAPTRUST financial advisors do a future value calculation to estimate what clients need to save. The model compounds inflation at 5 percent, given that college costs have increased exponentially during the past 30 years.

Summerlin says when he starts the college conversation, some parents reflexively say, â??whatever the expense is, weâ??ll cover it.â?• Currently, a â??moderateâ?• budget for a year at an in-state public college is $25,000 and $50,000 for a private college,[2] so average total costs are about $100,000 and $200,000 respectively. And that is todayâ??s cost.

â??A heart-stopping moment is when I say $250,000 or $300,000,â?• says Summerlin as he provides an estimate of future costs. Once parents see the numbers, he helps them develop a realistic goal and a plan for saving all or a portion of college costs depending on their situation.

Figure Out Whatâ??s Reasonable for You

Some clients can pay the full freight for private college. Thatâ??s great, but when the time comes, most of them prefer to avoid creating a taxable event when they pull a potentially large sum out of a brokerage account. Summerlin explains that several college savings vehicles include important tax-free benefits.

Some of Summerlinâ??s clients who have multiple children and canâ??t afford private school may decide to fund four years at a state school and leave the extra amount of private school or graduate school expenses up to the children.

Summerlin concurs with college expert Mark Kantrowitz, publisher of Savingforcollege.com, who says not to obsess about saving for the total cost of a college education if itâ??s completely out of reach. Parents who may really be struggling financially due to loss of a job, divorce, or having a child with special needs in the family can set a goal of saving a percentage of college costs. He recommends saving at least a third of the cost, if possible. You can cover another chunk with your income while your children are in college. Your children can contribute their income as well, in addition to taking advantage of grants, scholarships, and loans for the remainder.

Summerlinâ??s cardinal rule: â??Do not jeopardize your own retirement. Students can always finance an education. You canâ??t finance a retirement when youâ??re not working anymore.â?•

Invest Efficiently: Use a College Savings Vehicle

Many parents may have dollars mentally earmarked for college in a brokerage account, but â??thereâ??s a flaw in that strategy,â?• says Summerlin. â??Itâ??s more than likely going to be diverted to other purposes when â??life happens.â??â?• Itâ??s far more efficient to use a vehicle specifically designed for college costs. All states offer either a 529 college savings investment plan or a 529 prepaid tuition plan.

529 Savings Plans

The 529 college savings investment plan is a tax-advantaged savings vehicle. Your after-tax money goes into the plan and grows tax-free; your contribution is considered a gift if it stays below a specified amount. When itâ??s time to withdraw the money for college, itâ??s not taxed, and you can use the money to pay qualified education expenses like tuition, books, computers, school supplies, and some room and board fees.

If youâ??re worried that a 529 savings plan may keep your child from receiving federal financial aid, the experts at Savingforcollege.com say that for most people, the 529 is a great benefit and has â??a minimal effectâ?• on financial aid.[3]

Each stateâ??s plan is different, so you should compare plans. You donâ??t have to choose the plan your state offers. Investigate whether you get a contribution match. If you do, go with your stateâ??s plan; many offer these incentives. Contribution limits are generous. In 2018, individuals can contribute up to $15,000 per year and still avoid a gift tax, and a married couple can contribute up to $30,000 per year and avoid the tax.[4] Compare the benefits and costs of the plans at Savingforcollege.com.

529 Prepaid Tuition Plans

In addition to the 529 savings plan, some states offer 529 prepaid tuition plans. You can lock in the current tuition price now, saving 18 years of tuition increases if you start saving when your child is born. If tuition doubles during that time, youâ??ve saved 50 percent of the cost when your child is

ready to attend collegeâ??a substantial savings. As of 2018, 11 of 18 plans are accepting new applicants. Nine have residency requirements.[5]

The prepaid plans normally cover only the cost of tuition and fees, whereas the savings plan can cover other college-related expenses. Like 529 savings plans, the prepaid tuition plans are usually tax-free. However, your child typically needs to attend an in-state public school to reap the full benefits.[6] If your child attends a state school, this can be a good option. However, thereâ??s no way to know that when you open the account. For that reason, a 529 savings plan may be the safer option.

Make Payments Automatic

When youâ??re saving for your own retirement, paying a monthly mortgage, paying for orthodontia, buying cars, and going on family vacations, saving for college could get put on a back burner even if you set a goal. â??Donâ??t let that happen. Set up 529 savings accounts where payments are deposited automatically from your paycheck. That way, just as with your retirement savings, youâ??re letting time and compound interest work for you,â?• says Summerlin.

If you start when your children are born, and youâ??ve decided on saving $2,000 a year for each of your three children, for example, youâ??re committing to $166 per month for each child. As your income increases over the years, you can also increase the monthly amount per child.

Grandparents Can Play an Important Role

While many parents may not be able to contribute as much as they want toward their childâ??s college expenses, grandparents are often in a different position and want to help.

A grandparent could make a large lump-sum contribution to a 529 savings plan to kick-start it by using a strategy called the five-year election. For example, if the grandparents want to contribute $75,000 for a childâ??the current maximum when using this strategy to avoid the gift taxâ??that amount would be spread over a period of five years, with $15,000 being counted in the current year.[4] With this kind of jump-start to the account, the parents may find that the college costs for a child could be completely covered.

If a grandparent owns a 529 plan, the assets arenâ??t counted in the federal student aid application (called the FAFSA) as the money accumulates in the plan, but itâ??s a different story upon withdrawal. The studentâ??s aid package could be hit significantly when withdrawals are made and counted as untaxed income on the FAFSA. The good news? There are ways to get around this, by timing the withdrawals or rolling over the money to the parentâ??s 529 and spending it on college costs before next yearâ??s FAFSA is due.[7]

Itâ??s a somewhat simpler situation when the parent owns the 529, because withdrawals donâ??t have to be included on the FAFSA. Approximately the first $20,000 of parental assets in the 529 plan are protected from affecting the studentâ??s aid.[7]

Save Methodically to Reach Your Goal

Summerlin concludes his advice by saying, â??Across the spectrum, the cost of sending a childâ??especially multiple childrenâ??to college is a burden that can be alleviated by starting early and investing aggressively. Donâ??t procrastinate. Use the breaks that the IRS gives you for tax-deferred and tax-free growth to reach your goal.â•

Sources:

1â?³How America Pays for College,â• Sallie Mae, 2017.
2â??Whatâ??s the Price Tag for a College Education?â• Collegedata.com, 2018
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