
# How to Plan and Manage to Send your Child—or Children—to College

By Jane Leibbrand

If you're reading this, you're likely a parent trying to figure out how to save for your child's college education without "breaking the bank." Congratulations. You've taken a first step toward a long-term goal that too many parents avoid.

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A Sallie Mae 2017 study, "*How America Pays for College*," 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, it'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 parents' 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 won't have debt afterward, that's great. But if doing so would present hardship and stop you from saving for your retirement or having vacations, it's critical to your well-being to understand that there are many other options. And with a sound plan, you can avoid having your child saddled with hefty student loans to pay back.

If you've looked at the cost of tuition, room, and board recently compared to when you went to college, you'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 $30,000—but almost 20 percent of students have over $50,000 in debt after graduation.

Student loans have become a major albatross for today's college graduates. Following are some simple steps to take to make a substantial contribution to college costs so that your child isn'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? It'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. "It's our role as advisors to start the conversation, stimulate action, and drive results. It's critical to start saving for college as early as possible—beginning when your child is born or even prior to the birth. This way, you'll find that time is on your side," he says.

**Set a Goal**

Setting a goal for the amount you'd like to have saved for your child's college years will help start you on your journey. How do you know the amount you'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, "whatever the expense is, we'll cover it." Currently, a "moderate" 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 today's cost.

"A heart-stopping moment is when I say $250,000 or $300,000," 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 What's Reasonable for You**

Some clients can pay the full freight for private college. That'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 Summerlin's clients who have multiple children and can'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 it'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.

Summerlin's cardinal rule: "Do not jeopardize your own retirement. Students can always finance an education. You can't finance a retirement when you're not working anymore."

**Invest Efficiently: Use a College Savings Vehicle**

Many parents may have dollars mentally earmarked for college in a brokerage account, but "there's a flaw in that strategy," says Summerlin. "It's more than likely going to be diverted to other purposes when 'life happens.'" It'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 it's time to withdraw the money for college, it'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 you'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 "a minimal effect" on financial aid.[3]

Each state's plan is different, so you should compare plans. You don't have to choose the plan your state offers. Investigate whether you get a contribution match. If you do, go with your state'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, you've saved 50 percent of the cost when your child is ready to attend college—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, there'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 you'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. "Don'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, you're letting time and compound interest work for you," says Summerlin.

If you start when your children are born, and you've decided on saving $2,000 a year for each of your three children, for example, you'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 child'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 child—the current maximum when using this strategy to avoid the gift tax—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 aren't counted in the federal student aid application (called the FAFSA) as the money accumulates in the plan, but it's a different story upon withdrawal. The student'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 parent's 529 and spending it on college costs before next year's FAFSA is due.[7]

It's a somewhat simpler situation when the parent owns the 529, because withdrawals don'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 student's aid.[7]

**Save Methodically to Reach Your Goal**

Summerlin concludes his advice by saying, “Across the spectrum, the cost of sending a child—especially multiple children—to college is a burden that can be alleviated by starting early and investing aggressively. Don’t procrastinate. Use the breaks that the IRS gives you for tax-deferred and tax-free growth to reach your goal.”

Sources:


1?How America Pays for College,” Sallie Mae, 2017.
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4 Flynn, Kathryn, “How much can you contribute to a 529 plan in 2018?” Savingforcollege.com, 2018
5 Flynn, Kathryn, “Prepaid tuition plans,” Savingforcollege.com, 2018
6 Gorey, Jon, “Is This the Perfect Investment for Your Kid’s College Fund?” 2017
7 Flynn, Kathryn, “Yes, your 529 plan will affect financial aid,”Savingforcollege.com, 2018


Have questions? Need help? Call the CAPTRUST Advice Desk at 800.967.9948, or schedule an appointment with a retirement counselor today.