SAGE Scholars, Inc.

Ten Minute Professor

College Funding: Five Ways to Save for College

1. Don't

Strangely, this is a form of savings. Here's why: If you don't save, you'll probably have to borrow; and, borrowing, assuming you intend to repay, is nothing more than deferred saving.

2. Specific College-Savings Vehicles

Sponsored by states, "529s" (named after the IRS-enabling section) are the most popular method of college savings. More than 10 million 529 accounts have been opened. Any investment growth is tax-free -- assuming the money is used for "qualified higher education expenses". Your investment contribution may also be deductible from income on your state tax return. There are two types of 529 investments:

Pre-Paid 529s: These simply guarantee you future tuition at today's price. For example, if you're a Pennsylvania state resident, you can purchase one year's undergraduate tuition at Penn State University, main campus (2011-12 rates: $15,124 for freshman & sophomores; $16,352 for juniors and seniors – more for certain majors). Even if your daughter is 14 years away from college, in 14 years, you will own the equivalent of one year of tuition at Penn State. The funds can be applied to any college's tuition bill. The risk of investing

Graduation at Dominican University of California

your money well enough to cover future tuition increases is assumed by the sponsoring state (or an agency created by the state). Pre-paids are a safe, conservative way to save for college. Only 12 states offer pre-paid plans; investments are generally limited to state residents. In the long run, stock market investments have historically increased at a greater rate of return than the inflation rate of college tuition. However, in the period from 2000 to 2010, pre-paid 529 returns significantly exceeded than the return on the benchmark S&P 500.

Mutual Fund 529s: Nearly every state offers a mutual fund-type 529 investment. These plans do not guarantee future tuition and are subject to market risk. Families may be able to invest (1) directly in investments managed by a mutual fund company selected by the state; (2) through a financial advisor affiliated with a state-selected fund manager; (3) or, both. Many investment options exist; some states offer age-based portfolios and other variations designed to allow you to invest according to your own risk tolerance.

Coverdell Education Savings Accounts: If you have an annual income below $110,000 (single) or $220,000 (married couple), you are eligible to contribute, tax

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free, up to $2,000 per beneficiary per year in almost any investment (except life insurance). As with 529s, Coverdell account withdrawals are tax-free if used for qualified education expenses -- at any eligible institutions, kindergarten thru graduate school.

The view of the campus at Alverno College (WI) is impressive.

3. Other Investments

Many people don't want to tie up their assets in college-specific investments. Their logic is simple: Tax issues, other cash requirements, liquidity and so forth weigh against segregating college savings in a separate "bucket." These folks may prefer, for example, to fund college costs by selling a losing mutual fund or by refinancing their home with the deductible interest.

4. Cash-Value Life Insurance

Most financial advisors recommend a variety of cash-value life insurance investments (whole life, indexed universal life, etc.) for two reasons: (a) Certain types have guaranteed returns, so the cash value grows and isn't wholly dependent on the fluctuations of the stock market; and, (b) borrowing from the cash value to fund college costs can done at very, very favorable interest rates as a tax-free event.

Unlike other investments, the cash value of the policy is **not** included in financial aid calculations derived from the FAFSA form. Plus, there's a death benefit – which every parent should have as part of a college savings plan. The use of cash-value life insurance as a college funding vehicle is often recommended for grandparents as an "intergenerational funding" method.

5. Tuition Rewards® Points

Here is a wonderful way to lower college expenses: Earn guaranteed scholarships — actually discounts off full tuition for undergraduate study, starting with the freshman year -- provided by participating colleges. Almost 300 private colleges and universities across the country have joined with SAGE Scholars to offer Tuition Rewards® Points as a way to encourage families to plan and save for higher education. Tuition Rewards Points are accumulated annually, in a similar fashion to Frequent Flyer miles points, and can equal up to one full year's tuition, spread over four years of college. Families must (a) invest in any of a variety of qualifying financial vehicles and (b) identify children, grandchildren or other loved ones as potential beneficiaries. The earlier families enroll, the more Tuition Rewards points they earn (go to www.tuitionrewards.com for enrollment information).

Which Ways are Best for You?

Each family has unique circumstances: Different finances, sources of income, academic aspirations (and strength of each student), etc. For many families, it makes sense to seek college preparation, selection and funding advice from one or more specialists. Be cautious, however; many purported "experts" aren't. Seek referrals. Be particularly skeptical of any college funding specialist who seems only to offer a single type of investment as a "catch-all" solution!

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