COLLIE
Financial Planning, Inc.

Five Steps to Take in Saving for College

(by Michael Collie for WNC Parent, January 2005)

With the costs of a college education skyrocketing, saving for college has become a daunting task for parents. According to *Trends in College Pricing 2003*, a survey of over 2,800 U.S. post-secondary institutions, conducted by The College Board, in 10 years the average cost of a 4-year college education, including tuition, room and board, and assuming a 5% annual increase rate, will be $124,134 for an in-state public university and $188,535 for a private university. Stretch that out 20 years, and the costs jump to $202,201 (public) and $307,104 (private). As if this were not staggering enough, there is very likely an even greater cost to not attaining higher levels of education at all. In a U.S. Census Bureau 2002 Current Population Survey, the average annual salary for someone with a High School Diploma was $34,221 and $60,661 for a Bachelor's Degree. That's a difference of over $1 million over a 40 year working period. So, what are we as parents to do? The following steps will help us prepare for what may be the biggest financial challenge we will face in our lives.

• **Set a Goal.** This may be among the most critical of the steps. When will we need the money? Do we want to provide all of the needs for our child? How much do we want *them* to contribute? Many wise people have counseled, "He who contributes nothing, gains nothing." From my own personal experience, graduating in three years instead of four, because I was footing the bill myself, was to this day one of the greatest achievements of my life. I learned more from setting and achieving that goal than I did from any text book. Many websites, such as savingforcollege.com and smartmoney.com/college, have college calculators that can help figure out this key target amount.

• **Start Early.** The time value of compounding returns is the key here. With the end goal in mind, given an assumed rate of return, we can calculate how much we need to save on an annual or monthly basis. For example, to achieve a goal of saving $125,000, assuming an annual return of 8.00%, one would have to save $679 per month for 10 years (total contributions of $81,480; $679 x 12 months x 10 years) versus only $259 per month for 18 years (total contributions of only $55,944; $259 x 12 x 18).

• **Select the Proper Type of Account(s).** This is where it can really get tricky. 529 Plans, Coverdell IRA's, U.S. Savings Bonds, UTMA's, UGMA's…it's like jumbled up alphabet soup! While these options are the major types of accounts to choose from, there are many unique facets of each. The questions that need to be considered are: What are the contribution limits? What are the investment options? Who controls the assets? What is the tax treatment of the account? Is there an ability to change the beneficiary? How will the assets impact the possibility for financial aid? What are the taxes and penalties for non-qualified use? What qualified educational expenses are covered? Understanding how the plan will affect each of these concerns is crucial to making sure the type of account selected will meet your ultimate goals.

• **Contribute Often.** "Wealth hastily gotten will dwindle, but he who gathers little by little will increase it," Proverbs 13:11. Think of the 401(k). Many parents are familiar with the concept of putting a relatively small amount of their paycheck into their retirement account each pay period, regularly and systematically. We get in the routine of not missing the money by budgeting around it or possibly making minor adjustments to lifestyle, and before we know it, we have accumulated a sizeable nest egg for retirement (as long as the investments are managed well; that's a topic for future discussion!). Saving for college can work the same way. Some employers may even be open to starting a payroll deduction college savings program for their employees. The contributions are not before tax, like the additions to a retirement account, but the focus here is to save little by little, for a long enough period of time, to achieve the goal. This type of arrangement can help foster the discipline needed to accomplish this objective. There are also beneficial consumer rewards programs such as Upromise (.com) and BabyMint (.com). These programs have built up a network of retail and service partners that will make percentage contributions to member accounts each time the member buys products or services from their company. These programs also allow friends and or family members to have contributions from their purchases credited toward your child's account, so the accumulations can be significant over time.

• **Utilize Available Information and Resources.** "Without counsel plans go wrong, but with many advisers they succeed," Proverbs 15:22. There are great websites on the internet that can provide a wealth of information about this subject. Savingforcollege.com, SmartMoney.com/college, and Collegesavings.org are sites that I have benefited from using in the past. Collegeboard.org is a fantastic resource for researching potential scholarships, grant, loans and other forms of financial-aid. Partnering with a Financial Advisor can be a great help in carrying out these steps and selecting the right options for your family.

Helping our children obtain a college education will be a tremendously rewarding experience for us as parents. For most of us it will not be an easy task, and it will take a serious commitment over a long period of time. However, if we commit ourselves to following these steps, the lives of those in our family will be forever blessed and enriched!

Michael is a Certified Financial Planner™ and President of Collie Financial Planning, Inc., a Fee-Only financial planning and investment advisory firm located at One Town Square Blvd, Suite 346, in Asheville. He can be reached at mcollie@colliefp.com or at (828)654-8830. Michael is a member of the Christian Financial Professionals Network and the Financial Planning Association.