GUIDE TO SAVING FOR COLLEGE

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Planning for College

Preparing for college takes time—and money—but the rewards are well worth it.

Is providing your child with an excellent education something you care deeply about? For many parents that means paying for—or helping to pay for—an undergraduate degree, vocational school, or technical program after high school. And, if the child wants to pursue a professional or graduate degree, some parents support that schooling as well.

Part of making education a priority is understanding what it will cost and what you can do now to be ready to pay the bills when it's time for your child to enroll. A good place to start is by learning how many options you and your child have. They include not only the number and variety of schools he or she might attend, but the range of alternatives for saving and borrowing that are designed specifically for education.

A RANGE OF CHOICES

There are over 4,000 degree-granting colleges and universities in the United States, plus a number of certified vocational and technical schools offering specialized training programs.

The most basic distinction is between **public institutions**—those that are supported at least in part by state tax revenues, or, in a limited number of cases, by federal tax money—and **private institutions**.

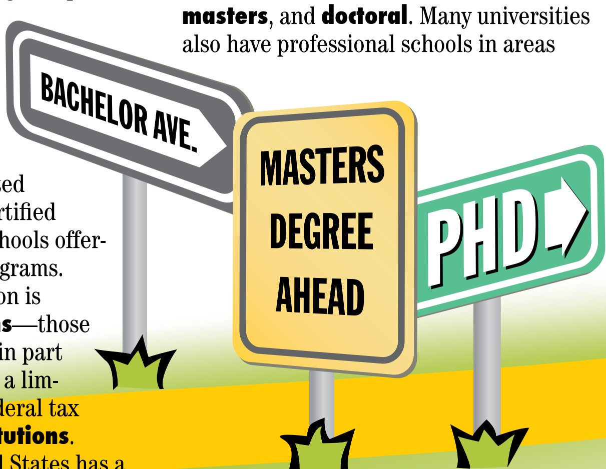
Every state in the United States has a public university system that includes one or more major universities, four-year colleges, two-year community colleges, and sometimes institutions with a specific focus, such as veterinary medicine, agriculture, or hotel management. The largest system, New York's, has a total enrollment of over 400,000 students.

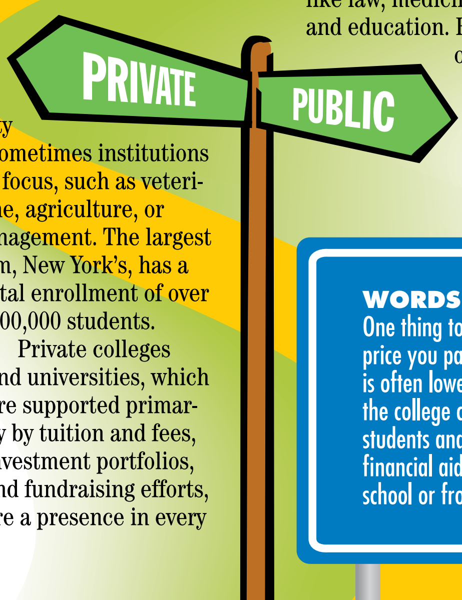
Private colleges and universities, which are supported primarily by tuition and fees, investment portfolios, and fundraising efforts, are a presence in every state. There are also a small number of private two-year colleges and some for-profit institutions, whose financial structure resembles that of for-profit hospitals.

MAKING DISTINCTIONS

The differences between a college and a university are essentially those of size and scope. Most colleges grant four-year bachelor's degrees and sometimes a limited number of master's degrees in specific fields tied to the mission or the academic strengths of the school. College enrollments vary from a few hundred at the smallest schools to several thousand at larger ones.

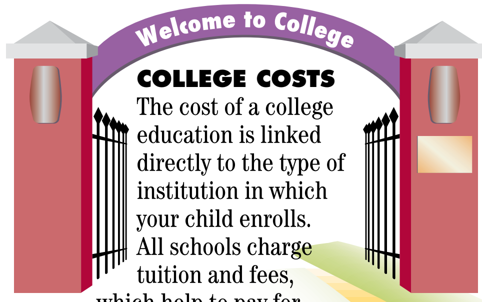
Universities, both public and private, offer two and often three levels of degrees: **bachelors**—also called baccalaureate—**masters**, and **doctoral**. Many universities also have professional schools in areas like law, medicine, journalism, religion, and education. Enrollment can run to tens of thousands. The largest university in the country, Arizona State University, has an enrollment of over 70,000 students.





WORDS TO THE WISE

One thing to remember is that the net price you pay when your child enrolls is often lower than the price printed in the college catalog. More than 60% of students and their parents receive some financial aid, either through an individual school or from the government.



COLLEGE COSTS

The cost of a college education is linked directly to the type of institution in which your child enrolls. All schools charge tuition and fees, which help to pay for classroom instruction, certain extracurricular activities, and maintenance of the buildings and grounds. If students live on campus, schools will also charge for room and board, which covers a place to stay and some or all meals.

The average tuition cost for an in-state student at a four-year public college in the 2014-2015 academic year was $9,139. Attending a public school in a state other than the one where the student lives adds, on average, about $22,223 annually to the tuition bill at a four-year school. At a private college, the average cost was $30,231. Remember, though, that these are averages. The numbers don't report regional differences, which may affect your experience.

What may be more encouraging is that the percentage increases in in-state tuition and fees at public colleges were smaller than in the past. The least expensive way to attend college is at a public two-year school where tuition and fees average $3,347.

IN YOUR CORNER

If you're just starting to plan for college, it's important to remember that if higher education matters to you and your children, it's within your reach. Two things you can do to make a difference are stressing the academic achievement that helps kids get accepted and saving to help cover the cost.

There's a general sense, from the local community to the federal government, that education is a good thing and that everyone is entitled to the opportunity.

That doesn't mean there are no challenges. Prices are going up, as they have been for years. Public institutions in particular are struggling to compensate for reduced funding from the states. But you'll find that there are a number of financial incentives to help you pay for your child's education. Certain education expenses and education loan interest are tax deductible, and education tax credits may reduce the income tax you owe. But you must spend the money before those benefits help you.

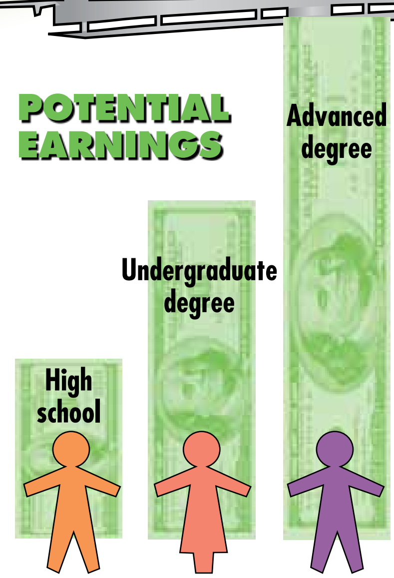
COLLEGE TUITION + FEES

4-year public in-state	$ 9,139
4-year public out-of-state	$22,223
4-year private	$30,231

*Source: The College Board, 2015

THE GI BILL

Special assistance in paying for higher education is available through the Post-9/11 GI Bill for veterans, their dependents, and, in some cases, their survivors. If you or your children may be eligible, view or download a copy of *Federal Benefits for Veteran, Dependents and Survivors* at www.va.gov/opa.



OUTWEIGHING THE COSTS

There's little question about the value of education in financial terms. Someone with an undergraduate degree earns, on average, about $1 million more over his or her lifetime than someone with just a high school diploma. And while there are still some extremely satisfying jobs that don't require a college education, there's little doubt that an undergraduate degree is an entry-level requirement for an increasing number of careers.

People with advanced degrees, including professional degrees, can expect an even higher level of financial security, on average earning up to three times more than the annual income of someone who has no formal education beyond high school.

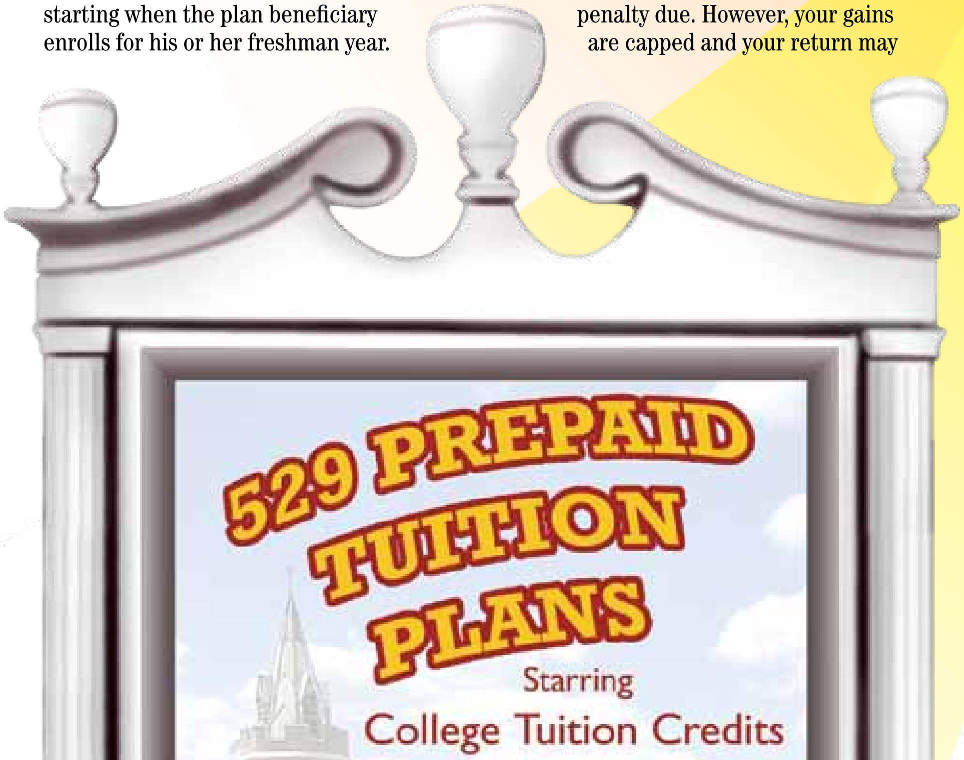
SAVING FOR COLLEGE

529 Prepaid Tuition Plans

Prepaid tuition plans can pay off—just beware of the conditions that apply.

If you want to reduce your investment risk, you may want to consider choosing a **529 prepaid tuition plan**. A prepayment plan allows an account holder, typically a parent, the opportunity to lock in some or all of the cost of future undergraduate tuition and mandatory fees. Each prepayment plan works a little differently but typically involves purchasing credits at today's rates that can be redeemed starting when the plan beneficiary enrolls for his or her freshman year.

No prepayment plan guarantees that your child will be accepted at a participating school. So all plans make provision for changing the beneficiary to another member of the same extended family or arranging to have your accumulated account value refunded or rolled over to another qualified plan. If you use the plan assets for other qualified higher education expenses, there's no income tax or penalty due. However, your gains are capped and your return may be substantially less than you could have realized by investing in another way.



THE MAIN ACT

When you contribute to a 529 prepaid tuition plan, you purchase credits, sometimes known as certificates, toward your beneficiary's college tuition at today's prices, or sometimes even at a small discount. If your beneficiary attends a school that's covered by your plan, those credits will usually count at full value toward his or her tuition.

For example, State X University requires 400 tuition credits for a four-year undergraduate degree. Suppose that tuition credits cost $100 each when you first open an account, meaning contributions totaling $40,000 would cover all four years of your beneficiary's tuition in advance. That might seem like a lot of money to pay upfront, but consider this: 18 years later, when your beneficiary is ready to attend State X University, credits could cost $200 each. That means you would have to pay $80,000 for four years of tuition—or twice as much as you'd pay if you bought the credits in advance.

THE BRIGHT SIDE

Prepaid plans have some important tax advantages. The difference between the amount you pay into the plan and the cost of tuition those prepayments cover in the future—the equivalent of earnings on your investment—is not subject to federal income tax, provided that you redeem the credits to pay tuition and fees.

Another feature of prepaid plans, and one they share with any tax-deferred college savings vehicle, is that the value of the plan is considered an asset of the parent. This means that just 5.6% of the account value must be included in calculating eligibility for financial aid. In contrast, when assets are held in a student's name, 20% of the total value must be included.

What's more, the tuition credits you purchase increase in value at the rate that tuition increases. In recent years, that has averaged between 6% and 8% annually. In many years, that's been higher than the return in 529 college savings plans or other investment accounts.

THE POTENTIAL DRAWBACKS

Besides the minimal and potentially taxable return you'lll receive if you withdraw from the plan, there are a number of things you'll want to consider before you participate in a prepaid plan.

Just as there's no guarantee of acceptance, there's no assurance that your child will want to attend one of participating schools. On the opposite side, there's also the chance that your child will receive a total scholarship and not need the credits that you have paid for. At the very least these are strong arguments for considering a prepayment plan as just one part of your overall college planning and not making it the sole approach.

PRIVATE COLLEGE 529 PLAN

The Private College 529 Plan is the first prepaid tuition plan to be sponsored by a large group of private colleges and universities. This plan, which covers tuition at over 270 private schools, is guaranteed to cover your beneficiary's tuition, and allows you to buy credits at current tuition rates.

The Private College Plan assigns a separate value to tuition credits for each school. So, if your beneficiary decides to attend any of the colleges participating in the plan, you can easily transfer credits from one school to another. And, like most plans, if your beneficiary decides not to attend one of the participating schools, you can withdraw your money tax free from the account, as long as it goes toward higher education costs.

It's also possible that you could realize a stronger return than the private plan or any prepaid plan will provide by investing on your own, especially if you invest in accounts that you can draw on to meet college expenses, but that you could also use to meet other goals.

STAYING SOLVENT

Some, but not all, public plans and the private college plan guarantee your credits. Some states pledge their "full faith and credit," which is their ability to raise taxes to keep their plans solvent. In others, state law requires subsidies if necessary. The private plan and at least one state plan make honoring the prepaid credits the obligation of the participating institutions. But several states provide no guarantee.

There is some comfort in knowing that no plan participant has so far been unable to redeem his or her credits, despite the economic uncertainty of recent years that has affected investment returns and state budgets. But the possibility reinforces the necessity of reading the small print in your contract carefully before enrolling.

RESIDENCY REQUIREMENT

To participate in a state's prepaid tuition plan, either you or the plan's beneficiary must be a resident of the state.