COLLEGE FUNDING OPTIONS

Several ways to save for tuition and/or expenses.

Provided by Glazer Financial Network

How can you cover your child's future college costs? Saving early (and often) may be the key for most families. Here are some college savings vehicles to consider.

529 plans. These state-sponsored college savings plans let you put away up to $13,000 per year for your child's college costs without having to file an IRS gift tax return (the limit applies to all monetary gifts to a single beneficiary). Plans in some states have no contribution limits, and you don't have to live in those states to invest in those plans. The money you invest grows tax-deferred, and withdrawals are tax-free as long as the money is used for college expenses. If your child doesn't want to go to college, you can change the beneficiary to another child in the family, or even roll the funds into another account for the same beneficiary, tax-free.[1,2]

Coverdell ESAs. Single filers with modified adjusted gross income (MAGI) of less than $95,000 and joint filers with MAGI of less than $190,000 can pour up to $2,000 annually into these tax-advantaged accounts. The money saved and invested can be used for college or K-12 education expenses. Contributions aren't tax-deductible, but the account enjoys tax-deferred growth and withdrawals are usually tax-free. Contributions may be made until the account beneficiary turns 18. The money must be withdrawn when the beneficiary turns 30.[3,4]

UGMAs & UTMAs. These all-purpose savings and investment accounts are often used to save for college. When you put money in the account, you are making an irrevocable gift to your child. You manage the account assets. When your child reaches adulthood he or she can use the money to pay for college. However, once majority is reached, there are no limits to the money's use, even if they elect not to continue their education.[5]

Cash value life insurance. If you have a whole or variable life insurance policy, you can borrow from, withdraw against, or even cash out the policy to meet college costs. You can make tax-free withdrawals from such a policy as long as you don't exceed the cost or "basis," or the total amount of premiums paid.[6]

Parents and grandparents can save at the same time. Grandparents can start a 529 plan, or other college savings vehicle, just as parents can; the earlier, the better.

Imagine your child graduating from college debt-free. Talk to a financial advisor today about these savings methods

Citations.

[1] www.irs.gov/newsroom/article/0,,id=213043,00.html [2/28/12]
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[3] irs.gov/taxtopics/tc310.html [6/7/12]
[4] www.fool.com/college/college02.htm [6/7/12]
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