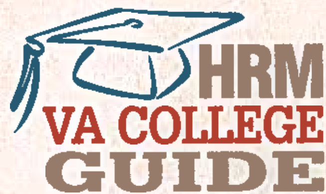
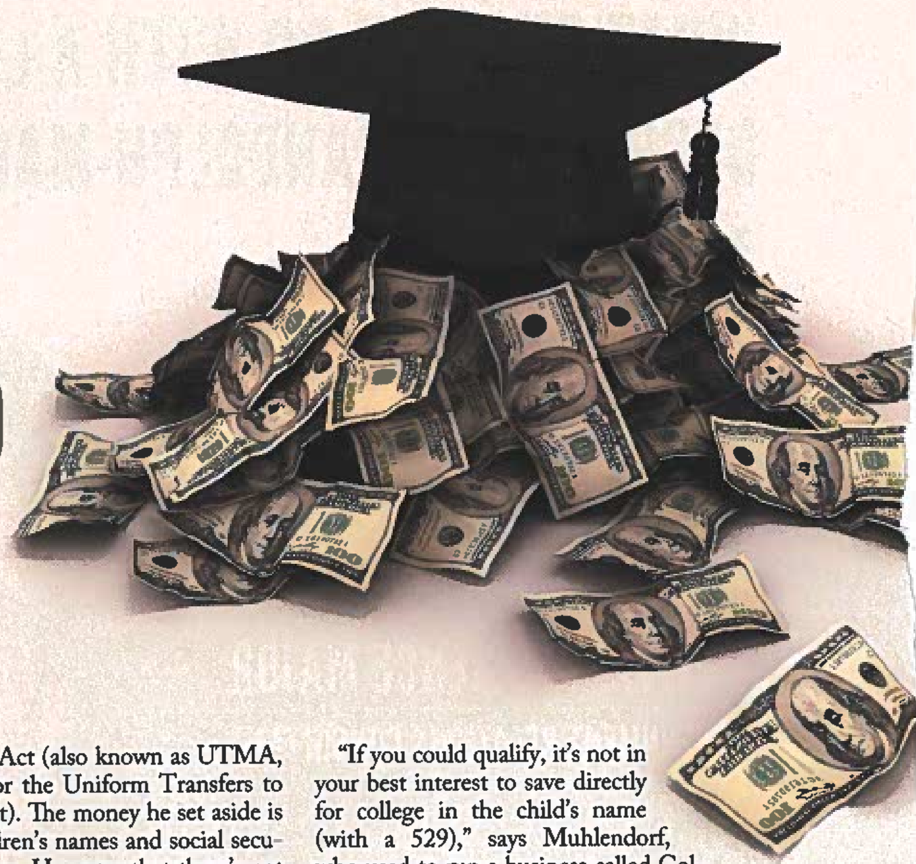


Lessons in Saving



HOW NOT TO SUFFER FROM COLLEGE STICKER-SHOCK

By Kristen De Deyn Kirk

For too many people, two plans come to mind when they hear the words "saving for college":

1. Rob a bank
2. Hit up Grandma

Under no circumstances is the first plan a good idea. Confirm that you realize that.

Right now. Please.

We will allow that, yes, occasionally, the second one can work out. The operative word, however, in that sentence is "occasionally." It's safer to not rely on a dear relative's generosity and risk being wrong about his or her bankroll. And besides, what kind of lesson is it to your children to rely on a handout?

Your best bet is a plan that involves regular savings and family communication. Ideally, you and your partner set the college-savings engine in motion as soon as you got the good news that Smarty Samantha or Brilliant Billy would be joining you in nine months. If that isn't the case, though, you do have options that can get Baby—whether he or she is 8 weeks old or 10- or 16-years old—to Big Bucks University:

IF YOU HAVE 18 YEARS BEFORE COLLEGE

Robin Tull, a certified financial planner with Tull Financial Group, Inc. in Chesapeake, is always thinking about college funding—and not just because it's his business. He has four children, two in college and one in grad school right now. For him, he felt the best option was a trust under the Uniform Gift to Minors Act (also known as UTMA, standing for the Uniform Transfers to Minors Act). The money he set aside is in his children's names and social security numbers. He notes that there's not as much tax benefit with this option as there once was, but there is some. He likes that the trusts allow flexibility. The savings can be used for education other than college, such as private-school tuition and even educational travel for homeschoolers. The parent decides if the money is available directly to the child at age 18 or 21.

"You can also decide to convert it to a joint account at that point," says Tull. That option might be a good idea if the child is acting more like his shoe size than his age.

Parents can also go the route of a good, ol' fashioned savings account in their name, says Tull. There's no tax benefit, but you've at least given conscious thought to saving in a fund specifically for college.

Tull and Jonathan Muhlendorf, a certified financial planner with Muhlendorf Shepherd Financial Group in Virginia Beach, both mention the 529 College Savings Plan as well.

"Your investment grows without the burden of tax if the money is used for college and related expenses," says Muhlendorf.

To decide if a 529 in a child's name is a good idea, parents must first think about whether or not they will qualify for needs-based financial aid from the federal government.

"If you could qualify, it's not in your best interest to save directly for college in the child's name (with a 529)," says Muhlendorf, who used to run a business called College Funding Solutions. "It's the worst thing. It will automatically diminish the amount of needs-based financial aid you'll qualify for."

> "Your best bet is a plan that involves regular savings and family communication."

Financially secure? Don't worry about hurting your chances, because you won't qualify for the needs-based aid anyway, so a 529 savings plan or a trust in a child's name doesn't matter.

Muhlendorf recommends that parents who might qualify for needs-based financial aid save with Roth IRAs in their names. The Roth can be tapped earlier than usual (generally the holder's 59 ½ birthday), if funds are used for higher education.

IF YOU HAVE 8 YEARS LEFT

Tull notes that the above options are still viable for parents with 10-year-old children. Another option might be a good idea, too—The Virginia College Savings Plan. This fund allows you to pre-pay for a state college at today's rates.

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"If the child changes his mind, you'll only get a minimal interest return on your investment," explains Tull.

Yet, he believes it might be worth the gamble.

"I think it's OK to do it if there's an affinity to a state school at this point," he says.

Muhlendorf also recommends the options considered when the child was first born, as long as parents take a second look at their finances. Do they still qualify for needs-based financial aid, or has their income changed?

Retirement funding must be considered, too.

"This is around the age when parents start thinking more about retirement," says Tull. "Many generally can't do both. Some will split savings between retirement and college or decide on minimal savings for college."

Try to do something for your college-bound children, but erase any guilt you might feel if you can't swing it.

"You can finance college," says Muhlendorf. "It's not possible to finance your retirement."

He suggests saving 15 percent or more of your annual income for retirement.

And for college?

"At least as much as you spend going out for dinner each month."

IF YOU HAVE 18 MONTHS LEFT

If saving for college wasn't on your radar until mid-junior year of your child's high school career, you can now panic, pout or be practical. You're reading this article to the end, so we know which you'll choose.

Tull says subsidized loans are still an option, depending on your income. You can also consider:

- Dipping into other savings
- Taking out a traditional loan
- Sending your child to work (as well as college)
- Giving Grandma a call

"Community college for two years is something people are doing, too," says Tull. "For me, I like to see kids go away, though. They learn independence. They get a bank account. They have a budget. They do laundry."

Make sure they do their schoolwork, too.

"The best way to save at this point, if you haven't been, is to make your child finish college in four years," says Muhlendorf. "Tell him you're only paying for four years. I read recently that the average to complete college is now six."

Of course, you should do what you can to avoid being in this crunch and instead know as much as you can about your options. You might be facing circumstances that make the advice here inappropriate.

"One size does not fit all," says Muhlendorf.

Plus, your "size" might change. Your finances, the tax laws and the financial aid regulations can always change. Meet with an expert and continue to get your own education—in this case, in finance.