



# Chicago Parent

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## Saving for college

Consider the choices, then sock it away, starting right now

by Jill S. Browning



John and Kelly Rolston haven't started saving for college yet for Sam, 2½, and Grace, 4 months, because they're considering sending the kids to private elementary schools.

Liz DeCarlo/Chicago Parent

We put up baby gates, enforce early bedtimes and help with homework. Parents are a multi-talented bunch when it comes to anticipating kids' needs, so why is it that we're like deer caught in the headlights when it comes to figuring out how to pay for college?

The cost of a higher education has soared and continues to escalate. The College Board reports tuition increased 5.9 percent at private colleges and 7.1 percent at public universities for the 2005-2006 school year. That rate outpaces both income increases and inflation rates. A recent poll shows most parents plan to pay some or all of their children's school bills. Despite that, most parents admit they have saved little to nothing to cover these expenses.

Since most financial aid comes in the form of loans, it costs more in the long run than saving before college starts. Don't be stymied by the complicated programs. The earlier you decide how to save and invest-and get started-the better.



The Ciota family  
Liz DeCarlo/Chicago Parent

Because no two families will fund college in the same way due to income, family size and school selection, there's no one right way to do it. Here are some suggestions for you to think about when choosing the path for you and your family.

Is saving smart?

You've heard that it's smart to not save, since it will hurt a child's chances to receive financial aid.

It's true: Those who save will be expected to contribute more toward their children's education than those who don't save. However, the federal formula that calculates eligibility for need-based programs counts a parent's income far more heavily than a parent's savings or assets. For example, income can count for up to 46 percent of the total while savings

count for up to only 5.6 percent. As a result, savings may not impact your eligibility at all, according to the American Council on Education.

"The more money you put away before that child reaches the college door, the less you're going to have to borrow," advises Nancy Stephens, associate director for College Illinois, the state's prepaid tuition program. Saving the interest you'll eventually pay on student loans more than makes up for an inflated contribution due to savings.

"Every dollar you save is a dollar less you'll need to borrow," according to [www.finaid.org](http://www.finaid.org), which also provides examples that show if you borrow, you can pay 1.7 to 2.6 times more per month.

What about a scholarship?

"[Parents] think that there's a pot of free money in financial aid out there just waiting for them to take it instead of saving for college," says Stephens. She says that more than half of the aid is in the form of loans, not grants. Also, most scholarships and grants (money that does not need to be paid back) are awarded based on financial need, according to the American Council on Education.

While 80 percent of parents expect their children will receive a private scholarship (vs. college-specific sources), only about 7 percent actually receive a private sector scholarship and that amount averages only \$2,000, according to [www.finaid.org](http://www.finaid.org). The chances of winning a scholarship are just one in 15, and the amount awarded generally will pay less than 10 percent of the bill. Free Web sites such as [www.fastweb.com](http://www.fastweb.com) can help determine what's available-avoid services that charge fees.

### Savings priorities

Some parents believe saving for retirement is more important than saving for college.

Consider this: If you were forced to make it an either/or choice, retirement would win. After all, you don't want to support your kids through school only to become a burden to them later in life. But if you can swing it, both should be part of a family's overall financial plan.

Participate in as many tax-advantaged programs as possible, including contributing the maximum amount possible to 401(k) and IRA programs, and then choose a suitable 529 plan. The earlier you start funding programs, the sooner you'll realize the benefits of tax-free compounded savings.

"You can't get a scholarship for retirement," notes Kelly Summerwill, a Chicago mom. Although she's actively saving for 5-year-old daughter Annie's future college bills, she places a higher priority on growing her own retirement funds because she knows loans are always an option for her daughter.

One way to build in flexibility in your plan is to use a Roth IRA. "It can be used for retirement, but you can also get at that money tax free or without penalties to save for college, so you have the flexibility there," says Joseph Orsolini, founder and president of College Aid Planners in Glen Ellyn.

"I still encourage people who are aggressively funding retirement to still put some money aside for college, just because you want to have that discipline of putting some funds away for college-even if it's not very much," says Joe Hurley, founder of [www.savingforcollege.com](http://www.savingforcollege.com). "Most people cannot budget for the entire cost of college, so it's just a matter of putting in what they can."

### Which savings plan?

You may think a regular CD or mutual fund account will work. And one savings program is fine. But more is even better.

Think of your college savings as a portfolio that can be composed of many investment components. For example, if you contribute to the College Illinois program, those funds will cover only tuition and fees, not room, board and books.

"If you can supplement a College Illinois plan with a 529 savings plan like Bright Start, for example, you can have those funds growing for you in a different way," says Stephens. "It is diversification of how your assets are being put to work for you, so that's a good thing." Consider participating in a 529 plan, where your earnings are exempt from federal taxes.

"We're taking somewhat of a shotgun approach, trying to cover all the bases," says Kevin Waden of Downers Grove, who has thought through every detail for his two daughters, ages 3 and 1. In addition to a regular mutual fund account, his family contributes to College Illinois, the Independent 529 plan ([www.independent529plan.org](http://www.independent529plan.org)) and an educational savings account. He says saving is a priority for his family; they're sacrificing those big vacations now for their girls' futures later.

Whalen is in the minority. Stephens says most people aren't saving at all, and she is concerned those who are saving underestimate the true costs.

"People say, 'Oh, you can open a 529 savings plan, or whatever, and just put in \$25 a week.' Well, yeah, you can, but you know what? That may not be enough," she says.

### Repaying student loans

When kids graduate with a mountain of debt, it has a "profound effect on well-being, financial security, and career and lifestyle choices for years after college," according to a recent survey. Further, nine out of 10 kids graduating without debt consider it to be a big advantage in life.

"We think that there's a really fine line between being responsible for your finances but also being overburdened," says Kevin's wife, Chris, who graduated from nursing school with loans. "We want [our girls] to understand that going to school and going to college is a big financial undertaking, but we also want them to enjoy those times."

Lisa Bishop of Clarendon Hills recently started investing in Bright Start for her two kids, ages 10 and 9, but predicts the family will supplement the portfolio with loans.

"School was the most important investment I made in myself," she says. "I think having some loans is part of that payoff, instead of having something just handed to you."

Orsolini sees some benefit to having debt, too. He thinks kids with loans work harder in school, appreciate their education more and mature faster financially by having to make payments and live on a little less after graduation.

We make too much money

Consider this: You never know until you apply. "Families earning over \$100,000 represent the top 10 percent of wage earners in this country, but only 42 percent of those bother to apply for aid," says Orsolini. "Yet 86 percent of those who applied got aid." Whether the aid comes in the form of scholarships or low-interest loans depends on the school.

A recent Wall Street Journal article contends that "people with six-figure incomes are now regularly eligible for five-figure college financial aid packages." High-priced private schools have the most plentiful opportunities for aid, since it's tough for most to afford their average costs (i.e., \$29,026 for the 2005-2006 school year, according to the College Board). Don't count on much help paying for a state school, though, since its \$12,127 comparative price tag is doable for most six-figure income families.

Is it too late?

It's true that the earlier you start, the better off you'll be when it's time for college. But it's never too late to start saving.

"Even if your child is older and you're setting a fund aside to pay for college, that's where a 529 plan can work very nicely in sheltering that income from taxes," says Hurley.

"At some point, you have to get used to writing that check," Orsolini says. For example, if you have a high school junior and estimate a monthly tuition bill of \$1,000, he advises putting away \$250 now. "That way, you're going to knock down what you'll pay eventually. It's hard to go from zero to \$1,000 a month."

The final analysis

With so many variables, there's no one-size-fits-all when it comes to developing a savings strategy—except to start now.

"Because there are so many choices, so many parents get confused and end up doing nothing, at least for awhile," says Hurley. "They're better off just choosing a program that looks OK, or good, and making sure that they keep going on their savings instead of just delaying or procrastinating."

Control what you can by putting rumors to rest, researching online or talking to a financial planner. Then do your family a financial favor and commit to a savings plan.

**Monthly savings goal\***

Child's age	Average public (4 years = \$50,000)	Average private (4 years = \$124,000)	Average Ivy (4 years = \$166,000)
Newborn	\$312	\$773	\$1,036
4	\$352	\$871	\$1,167
8	\$417	\$1,034	\$1,385
12	\$544	\$1,347	\$1,804
16	\$874	\$2,167	\$2,902

SOURCE: [www.savingforcollege.com](http://www.savingforcollege.com)  
\* Assumes 6 percent annual college cost increase and 6 percent annual investment return.  
Current costs include approximate average tuition, fees, room, board and books.

### The 411 on 529 plans

A 529 savings plan has advantages over traditional modes of saving because it's exempt from federal taxes. The exemption is set to expire in 2010, but there is strong bipartisan support in Congress for extending it.

"You're protecting yourself against the rate of tuition inflation, and you're doing it in a way that you're not going to have to pay federal income tax," says Nancy Stephens, associate director of Illinois' 529 prepaid tuition plan, College Illinois.

Like a 401(k), 529 plan earnings and qualified withdrawals are tax free. Every state has a 529 plan and you don't have to invest in your state's plan, although it generally provides some tax advantages.

Illinois has two 529 plans: College Illinois ([www.collegeillinois.com](http://www.collegeillinois.com)) allows investors to lock in tuition credits at today's rates, while savings with Bright Start ([www.brightstartsavings.com](http://www.brightstartsavings.com)) can be used for any qualified college expense including room, board and books.

Joe Hurley, founder of [www.savingforcollege.com](http://www.savingforcollege.com), holds accounts in 32 different states. He says one mistake parents make is assuming their choice of 529 plans somehow affects where their child has to go to college. For example, although you'll realize the biggest benefit by attending an Illinois public school by saving in College Illinois, you can still access those funds for private and out-of-state schools.

Finally, anyone can contribute to a 529 plan his or her kids. When someone other than a parent opens a 529 account on behalf of a child, the amount isn't included when the family applies for financial aid. The move may also create tax and estate planning benefits for the account holder.

### Spend and save

Enrolling in credit card programs that put dollars away for school can be a sneaky way to add dollars to your plan.

- [www.futuretrust.com](http://www.futuretrust.com)
- [www.upromise.com](http://www.upromise.com)
- [www.babymint.com](http://www.babymint.com)
- [www.littlegrad.com](http://www.littlegrad.com)

### Family profile: The Rolston family, Lombard

John Rolston, 34, manager at Roadway Express  
 Kelly Rolston, 33, stay-at-home mom  
 Sam, 2½  
 Grace, 4 months

Challenge: "We've talked about saving for college, but haven't pulled the trigger on anything yet," says John Rolston. He and his wife feel torn. They want to start saving for college, but are considering sending their kids to private elementary and high schools and are worried about having enough money for both. They would like to start putting away \$100 a month, adding extra funds at birthdays and Christmas.

Solution: Joseph Orsolini, founder and president of College Aid Planners, says: "John and Kelly can put flexibility

in their college savings program by funding Coverdell IRAs. They can put aside up to \$2,000 per year for each child, which would accommodate their \$100 per month goal and leave room for a bit extra. Coverdell IRA accounts provide tax-free savings for college, and the funds can be used for private elementary or secondary education. Also, recent financial aid rule changes have reduced the Coverdell's impact on financial aid eligibility."

### **Family profile: The Ciota family, Willow Springs**

Doug Ciota, 39, owns a real estate appraisal company  
Catherine Ciota, 29, stay-at-home mom  
Gia, 4 months

Challenge: Catherine Ciota gained a baby and lost a 401(k) since she decided to quit work and become a stay-at-home mom. "We are good savers but we want to make sure that we strike a balance between Gia's college and our retirement savings," Catherine says. Doug owns a real estate appraisal company, but does not have a formal retirement plan. They want to put money away for college but are concerned that doing so will reduce money available for retirement.

Solution: Joseph Orsolini, founder and president of College Aid Planners, says: "By establishing Roth IRAs, the Ciotas will tackle both saving goals simultaneously. They each can put away \$4,000 [\$8,000 per couple] per year for retirement. The IRS allows parents to tap these IRA funds penalty-free if the proceeds are used to pay college tuition. This strategy builds savings without having to specifically commit the funds to either retirement or college. Later in life, they can choose how to use the funds based on their situation at that time. Another benefit is that IRA funds are not considered assets when applying for financial aid."

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