Unbiased Financial Information Provided by Financial Wisdom.

Beginning to Think About College for Children

As you probably know, college is expensive. As you may not know, college costs are rising faster than inflation and almost no one is predicting that college costs are going to go down. As a result, you may want to start thinking about funding your children's college costs now. The sooner you start thinking (and hopefully saving) the easier it will be.

College Costs Today
According to the College Board, the annual costs (tuition, room, board, books, supplies, transportation, and other) of attending college for 2018 - 2019 were about:
Four year private college - $53,900
Four year public college for an in-state resident - $26,590
Four year public college for an out-of-state resident - $40,940

While many students qualify for scholarships and other forms of financial aid to bring these numbers down, you may also want to consider some of the other costs (travel, entertainment) that may add to these numbers.

College Costs Tomorrow
For the past several years, college costs have been increasing at a rate faster than the overall inflation rate. While it is impossible to know what will happen in the future, here is a chart that demonstrates what happens at annual increases of 4%.

College	Annual cost today	Annual cost in 5 years	Annual cost in 10 years	Annual cost in 15 years
Private	$53,900	$66,900	$79,700	$97,000
Public, in-state tuition	$26,950	$32,800	$39,900	$48,500
Public, out-of-state tuition	$43,900	$53,5400	$64,900	$79,000

And do not forget, these are just the annual costs; also, if your child attends for four years, you must multiple by 4. As you can see, it will be expensive to send your child to college and even more expensive if you have more than one child. Fortunately, you have time to save and there are several ways that the income tax laws make saving easier.

Funding College Educations
For decades, parents have used custodial accounts to transfer funds to their minor children to help build assets for college costs. However, the 2001 tax law has enhanced the tax benefits of other types of asset ownership that should be considered. Coverdell Education Savings Accounts (Education IRAs) and Qualified Tuition Programs (Section 529 Plans) have become very attractive.

Custodial Accounts
Using a Uniform Gifts to Minors Act (UGMA) or Uniform Transfer to Minor Act (UTMA) account is an easy and legal way to transfer the ownership of assets to a child. With a UGMA or

UTMA account, the parent creates a custodial account on behalf of the minor child. Assets are transferred into the account and the custodian, usually a parent, manages the account until the child reaches legal age. At that point, the child can do whatever he or she wishes with the assets. Transfers to these accounts are irrevocable.

Coverdell Education Savings Accounts (Education IRAs)

Coverdell Education Savings Accounts provide parents and others the opportunity to save for a child's education expenses in a tax advantaged account. The annual contribution limit is $2000 for these accounts. There are also income limits for those making the contributions.

Earnings within the account are tax deferred and withdrawals are not subject to tax if they are used for qualified education expenses. The new law expanded this definition to include expenses for elementary and high school expenses. Withdrawals not used for qualified education expenses are subject to regular income tax and a 10% penalty. Withdrawals must also be completed before the child reaches age 30.

Education IRA accounts function like IRA accounts and are available from most banks, credit unions, brokerage firms and mutual fund companies. Investment options vary depending on the firm. Usually there is considerable flexibility with self-directed type accounts.

Qualified Tuition (Section 529) Plans

These college savings plans are now offered by over 40 states and were also enhanced by the 2001 tax law. While the plans are offered by the state, there is no restriction on where the child attends college utilizing the funds. One potential drawback is that there are usually limited investment options. It makes sense to look at several states' programs to find one that offers the investment choices you desire.

With a Section 529 Plan, there are no income limits on the donors and contributions of up to $15,000 can be made in 2020. In addition, there are special provisions to allow a "front-end loading" of up to five years of contributions to be made without gift taxes. Withdrawals used for qualified educational purposes are excluded from federal income taxation.

The Value of Starting Early

It can be very easy to put off starting to save for college, especially if your children are young. Yet, by starting early, even if it is just a small amount, you can make a large dent in what you will need. You can always increase the amount as you earn more, but time can be your ally.

Savings accumulation table

Monthly savings	Accumulation after 5 years	Accumulation after 10 years	Accumulation after 15 years
$50	$3400	$7764	$13,364
$100	$6801	$15,528	$27,729
$150	$10,201	$23,292	$40,093
$200	$13,601	$31,056	$53,458

Assumes earning 5% and no income taxes.

Some conclusions

Enabling your children to attend the college of their choice and get an education that will prepare them for a successful and productive life is one of the greatest gifts you can give. However, the costs of providing that college education can be very large. Starting earlier rather than later can make the process easier, especially with some of the tax benefits of Coverdell Education Savings Accounts and Section 529 Plans. Developing a college saving habit can provide your children with the funds they need and provide you with the satisfaction of knowing that you are doing the right thing.