

START PLANNING FOR YOUR CHILD'S HIGHER EDUCATION NOW

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When should you start stashing away money for your children's higher education? How about, as soon as they are born, which actually might not be soon enough, given the rising costs. College tuitions and fees are rising faster than the inflation rate, and the annual price tag for many private schools is exceeding \$40,000, which is three times the average in-state public school expense.

For couples with young children, a savings program earmarked for college funding is crucial, even if the amount put away each year cannot actually meet projected expenses. For those with youngsters closer to college age, the financial planner has to evaluate the client's current financial position to assess, what resources, if any, they might use to fund higher education.

At that point, frankly, it's time to scramble. Is there a rich aunt or uncle who might chip in? Are there available scholarships? Can the child work while in school, thereby helping finance some of the expense?

Most couples fortunately come to me for advice when their oldest is in elementary school. Among their questions are: "How much should I save each month?" "Am I saving for four years, or also for graduate school?" Should I save based on my child attending a state or private school?"

After running some numbers, many clients question whether they can save for their children's education and also for their own retirement. Obviously, you have to concentrate on the former, but no competent financial planner will ignore the latter. Retirement planning is even more critical than college planning so do not feel guilty for considering your own future needs as well your offspring's.

One option for education funding is the state's 529 plan, which is similar to an Individual Retirement Account in that it allows parents to set aside money for a specific purpose, such as college. Virginia allows a state tax deduction of up to \$2,000 per account per year. If a lump sum of more than this is invested any amount unused is carried over until fully deducted. It is restricted however to that purpose, and there are penalties for using it for other needs. Some financial planners do not favor 529 because of these restrictions, but there is an alternative: get grandma involved.

A grandparent can transfer up to \$55,000 tax-free to the 529 plan, which is five times the normal annual gift tax exclusion of \$11,000. Persons age 70 and above can deduct the full amount given in one year from their state income taxes.

Other options are a home equity line of credit, which carries a tax deduction, and financial aid, including scholarships, grants, or student loans. My advice to parents is complete the forms requesting assistance, even if you think you will not qualify. The reason? There are non-need based programs that may be available but only to those who have filed the paperwork. Helpful web sites are www.finaid.org and www.fafsa.ed.gov.

The key is to examine all options and then determine what's financially feasible for your family. Don't wait though. College costs may soon exceed \$200,000 per child in after tax dollars. And the bill is increasing by more than double the rate of inflation. CPA financial planners can advise their clients on ways to meet their obligations to their children and also to themselves.

