

# How Do I Pay for My Child's College?



As your children head back to school, it's a good time to think about how their college costs will be paid if they want to continue their education beyond high school. If your children are young, you still have time to save; the sooner you start, the better. But what if your child is in high school and you have not saved much? Or at all? Don't worry, there's still hope!

If your children are young, figure out how much you will need. It may be difficult to determine now if your child will attend a public or private college, local or out-of-state, but it's better to overestimate than underestimate the amount you will need. Here are some educational savings options to consider:

Under a **Missouri Saving for Tuition Program (MO\$T)** account opened on behalf of your child, the amount you contribute each year, up to \$8,000 per taxpayer per year, can be deducted from your Missouri state taxable income.

When your child is ready for college, the account can be used to pay for qualified education expenses at eligible schools in Missouri or anywhere in the country. Earnings on the account will be exempt from Missouri state income taxes. Federal

income taxes are deferred until withdrawn and then taxed at the student's rate. You can get started with just \$25 a month. (Call 1-888-414-MOST.)

**Education IRAs** are for college savings, not for retirement. You must meet certain income requirements to contribute, and your contribution is limited to \$500 a year per child. Although contributions are not tax-deductible, earnings in an Education IRA accumulate on a tax-deferred basis and can be withdrawn tax-free as long as they are used for qualified college purposes. You may not contribute to both an Educational IRA and MO\$T, Missouri's state-sponsored plan, in the same year.

**Series EE Savings Bonds** can be cashed in and used for college tuition tax-free. However, there are income restrictions, and the bonds must be in one or both parents' names, not the name of the child. Check with a tax professional.

Investing in **Mutual Funds**, rather than individual stocks, allows you to diversify without having a great deal of money. Many have relatively low initial deposits, but generally have much better returns than leaving money in a passbook savings account, money market or certificate of de-

posit. The closer your child is to attending college, the less risk you want to take.

**Prepaid tuition plans** lock in your child's tuition at today's cost. When your child is young, you or other family members start paying your child's tuition to the college he/she will attend. When your child is ready for college, the fees are already paid. The drawback is that your child may not choose to attend the college you chose, and you could lose all or part of the tuition paid.

Setting up a **Uniform Gift to Minor's Account** in your child's name has pluses and minuses. It allows each parent or grandparent to give up to \$10,000 per year to a child who is under the age of 21, without having to pay gift taxes on that money. Money can grow until the child is ready to go to college.

On the flip side, once your child reaches 21, he/she can choose how to use the money, and it may not be for college. Another drawback is that if your child applies for financial aid, he/she will be forced to use much of the money from that account before qualifying for financial aid. If the money is left in the parents' name, only a small percentage of the money would need to be used before the family could qualify for financial aid.

## What if your child is ready to attend college soon and you have not saved enough or at all?

Don't despair! Almost half of all college students receive some type of financial aid.

**Grants and scholarships** do not have to be repaid. The key is to start researching them at the library or on the Internet as soon as possible. They often have application deadlines up to a year or more in advance of when your child will enter college. Apply for as many as possible. Some grants and scholarships are merit-based or based on financial need. However, there are others that go to people because they meet certain requirements (live in a specific town, belong to a certain club, etc.) The Pell grant is a federal grant for lower-income families. Also check with your child's college of choice to find out what types of scholarships are

offered. Beware: Scholarship finding services won't do anything for you that you can't do yourself by visiting the library or browsing the Internet.

**Part-time work and work-study.** Many students work during the summer and/or part-time during the school year to help pay for college. As part of a student's financial aid, many colleges offer work-study programs. The jobs are usually on campus, and the money earned is used to pay tuition or other college-related expenses. Other work-study programs can be in cooperation with businesses; students alternate working a semester with going to school a semester paid for by the company.

**Student loans.** Many loans are available to both students and their parents to pay for college. All loans must be paid back eventually, but with federally subsidized and unsubsidized

Stafford loans or Perkins loans, you do not have to start paying them back until six months to a year after graduation, after leaving school or if you drop below a certain number of hours. PLUS loans are personal loans for parents that are not based on financial need. As with grants and scholarships, it is always wise to complete and submit the application forms well ahead of when your child will start college.

One last thing: It never hurts to ask grandparents if they would like to contribute to your child's education; they may surprise you. They can each give up to \$10,000 a year without gift tax, and more if they write the check directly to the college of choice.

Sources:

*Preparing Your Child For College* by the U.S. Department of Education, <http://www.ed.gov/pubs/Prepare/pt4.html>;

*Missouri Saving for Tuition Program (MOST)*, <http://www.missourimost.org>;

"Financing College: Sorting Through the Investment Options," The Vanguard Group: [www.vanguard.com/catalog/lit/pt\\_pt\\_financecollege.html](http://www.vanguard.com/catalog/lit/pt_pt_financecollege.html)

# More Information

*The Student Guide from the U.S. Dept. of Education:*  
[http://www.ed.gov/prog\\_info/SFA/StudentGuide](http://www.ed.gov/prog_info/SFA/StudentGuide), or call **Federal Student Aid Information Center, 1-800-4-FED-AID (1-800-433-3243)**.

National Education Lending Center:  
824 Market Street, Wilmington, DE 19801

College Net:  
<http://www.collegenet.com>

FastWeb:  
<http://www.studentservices.com> or  
<http://www.fastweb.com>

*Preparing your child for college* by the U.S. Department of Education:  
<http://www.ed.gov/pubs/Prepare/pt4.html>

The Smart Student's Guide to Financial Aid: <http://www.finaid.org>

Free application for federal student aid: <http://www.fafsa.ed.gov>

The Wired Scholar:  
<http://www.wiredscholar.com>

Hope tax credit info:  
<http://www.ed.gov/inits/hope>

Missouri Saving for Tuition Program (MOST): <http://www.missourimost.org> or call 1-888-414-MOST

@ the U – One stop virtual campus:  
<http://www.attheu.com>

Missouri Dept. of Higher Education:  
<http://www.cbhe.state.mo.us>

Saving for college:  
[http://www.mymamasaid.com/save/save\\_college.htm](http://www.mymamasaid.com/save/save_college.htm)

Plain talk brochure "Financing College": [http://www.vanguard.com/catalog/lit/pt\\_pt\\_financecollege.html](http://www.vanguard.com/catalog/lit/pt_pt_financecollege.html)