

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 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.

You can customize your own account by choosing from a variety of investment portfolios the program offers, or you can choose from three age-based options that can help you simplify investing.

When your child is ready for college, the account can be used to pay qualified education expenses at eligible schools in Missouri or anywhere in the country. Investments

in these accounts grow federal tax-deferred, and distributions used to pay for the beneficiary's qualified educational expenses come out federally tax-free. For Missouri residents, earnings and qualified withdrawals from the account are state tax-free.

You can get started with just \$25 a month. Contact the MOST program at <http://missourimost.org> or (1-888-414-MOST).

Coverdell Educational Savings Accounts are similar to IRAs but are college savings accounts. If you meet income requirements, you can contribute up to \$2,000 per year per child. Total contributions for a child from all sources can not exceed \$2,000 per year combined or a penalty will be incurred. Contributions are not tax-deductible, but earnings in a Coverdell ESA accumulate on a tax-deferred basis and can be withdrawn tax-free as long as they are used for qualified educational expenses (some exceptions apply). You may contribute to both a Coverdell ESA and a 529 plan such as MO\$T, Missouri's state-sponsored plan, in the same year.

Series EE and Series I 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.

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 your child may not choose to attend the college you chose, and you could lose all or part of the tuition paid.

There are a small number of 529 prepaid tuition plans for specific states that allow families to purchase tuition credits and then cash them in when the child attends college. There is also the "Private College 529 plan" allowing parents to lock in current undergraduate tuition rates at a number of private colleges and universities.

Setting up a **Uniform Gift to Minor's Account** in your child's name has pros and cons. The pro is that it allows each parent or grandparent to give up to \$13,000 per year (2010, indexed to inflation) 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 con side, this is an irrevocable gift, once the money is given to the child, it is owned by the child and cannot be transferred back. When your child reaches 21, he/she can choose how to use the money, and it may not be for college. Another draw-

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back 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 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 \$13,000 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 (MO\$T), <http://www.missourimost.org>;

Saving for College and Financial Calculators, Finaid, <http://finaid.org/savings/ageofmajority.phtml>

529 Plans section, <http://savingforcollege.com>

More Information

Student Guide from the U.S. Dept. of Education: http://studentaid.ed.gov/students/publications/student_guide/index.html, 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://collegenet.com>

FastWeb: <http://fastweb.com>

Saving for College:
<http://savingforcollege.com>

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

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

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

Pre-paid tuition: <http://privatecollege529.com>

Hope tax credit info:
<http://ed.gov/offices/OPE/PPI/HOPE/index.html>

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

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

The College Answer:
<http://collegeanswer.com/index.jsp>