

Pointers For Parents

State College Saving Plans Are Making The Grade

by Michael Noone

(NAPS)—When Dickens wrote, “It was the best of times, it was the worst of times,” he could easily have been describing the emotions parents experience when sending their children off to college.

While it is a parent’s lot to be constantly put to the test, many find that their toughest test may be finding a way to finance their child’s college education.



Noone

According to the College Board, children born in the year 2000 can expect the average cost of a four-year college education to range from

\$100,000 at public universities to nearly \$235,000 at private universities by around the year 2018.

At the same time, research indicates the percentage of college costs paid by parents has diminished—thus burdening new graduates with larger and larger loans.

In 1999, student loans made up 59 percent of a record \$68 billion in financial aid. Two decades ago, loans made up just over 41 percent of student financial help.

To help reverse this trend, a number of states have introduced college savings programs that offer tax advantages to help parents and others save for college.

Known as Qualified State Tuition Programs, these programs are governed under section 529 of the Internal Revenue Code. Their key benefits are:

- Federal and state income tax advantages when funds are used for expenses at eligible higher education institutions,
- The ability in most states to invest substantial amounts—generally \$100,000 or more per beneficiary,
- Unlike the Roth or education IRAs, there is no income limit for participating,
- The flexibility to use the funds at nearly all accredited col-

leges and universities in the U.S. and some institutions abroad, and

- Estate and gift tax benefits as well as parental control over the assets even after the beneficiary reaches the age of majority.

Earnings on this type of account are not taxed by either the federal or state governments until withdrawn, when they are taxed at the beneficiary’s rate, which is a usually a lower rate than the parent or account owner. Some plans even exempt earnings from state income taxes and/or offer sizeable state income tax deductions for contributions. For this reason, people should first investigate the plan offered in their home state. Non-qualified withdrawals, however, are subject to federal and state income tax and a penalty that is typically 10 percent on the earnings portion of the withdrawal.

Contributions made to this kind of account also can be treated as gifts, with up to \$10,000 being contributed annually without the money falling under the regulations of the federal gift tax.

It is even possible to deposit as much as \$50,000 in a single year and spread the tax liability over five years, treating the amount, for tax purposes, as a series of five \$10,000 deposits, as allowed by law.

The core investment option offered uses a managed allocation, age-based approach that shifts money from equities to less risky investments as the time to enter college draws closer. Some plans, however, are offering broader investment choices ranging from a guaranteed option to a 100 percent equity option.

To learn more about Qualified State Tuition Programs, call TIAA-CREF Tuition Financing Inc.—a subsidiary of Teachers Insurance and Annuity Association—at 888-381-8283 or visit www.tiaa-cref.org/tuition/.

Michael Noone is a regional program director for TIAA-CREF Tuition Financing Inc.