

Saving for School



When it comes to saving for your child or grandchild's education, putting money aside in a savings account is unlikely to be enough to fund their higher education expenses. Even if they qualify for financial aid, it still might not cover the full cost of attendance.

There are several options that can help you put money toward their education, and thoughtfully grow those savings, years before they ever step foot on a college campus.

Creating and Funding a 529 Account

A 529 plan is an investment account authorized by state governments for the purpose of saving for education. 529s function similarly to retirement accounts, except their use is limited to qualified educational expenses. In a 529 college savings account, investments are not tax deductible at the federal level, but grow tax-free.

Once college expenses begin, withdrawals can be made to cover many school-related expenses. Additionally, up to \$10,000 per year can be withdrawn before college for K-12 tuition expenses.

There are five notable benefits of 529 college savings plans:

- Many states offer partial or full state income tax deductions on contributions.
- Contributions grow tax-free, allowing money to compound faster and larger than taxable accounts. However, investment options and flexibility are limited.
- Withdrawals used to pay for qualified educational purposes are tax-free.
- Funds can be transferred to a Roth IRA if it meets certain restrictions.
- The account owner can transfer funds to other family members (ex: Grandchild 1 doesn't need 100% of the funds, so the grandparents name grandchild 2 as the beneficiary and use the funds for their education.)

It is important to remember that ineligible withdrawals are subject to taxes plus a 10% penalty.

UTMA (Uniform Transfer to Minors Act) Accounts

Uniform Transfer to Minor Act accounts (UTMAs) were created to hold gifts made to a minor until they reach adulthood (18 or 21 years old, depending on the state). Income and gains up to a certain amount in UTMAs are taxed at the minor's tax rate, which are often lower than their guardians'.

A UTMA account has the same level of investment options and flexibility as a typical brokerage account. UTMA account assets can be used for any purpose, as long as the expense is for the benefit of the minor. This includes education expenses, but also the purchase of a car for the minor, summer camps, etc.

The biggest downside to a UTMA account is that sole ownership passes to the beneficiary once they reach the age of majority, meaning they are allowed to use funds at their discretion and are not required to use them for education expenses. They also cannot be transferred to another family member like 529 accounts.

The Cost of College

Tuition and room and board are likely the first expenses that come to mind when considering higher education costs. Still, many other expenses should be addressed during the planning process. Here are some costs that students – and parents – can expect:

Room and board. Most colleges offer lodging and food plans. Some even require that students live on campus during their freshman year.

Application fees. Depending on the school, it costs anywhere from \$25-\$100 to apply and those fees can add up fast for those applying to multiple schools. Narrow down the list to limit the number of applications.

Textbooks and school supplies. Textbooks can cost \$100-\$300 per class and are often required. Consider buying used or purchasing online.

Moving costs. Living on campus comes with added furnishing and household item expenses. Don't neglect to factor those into your planning.