September is …
National College Savings Month!

-By Dean Johns, CPA, CFP® and Chris Brennan, CFP®

September is National College Savings Month – an opportunity for parents everywhere to take a step back and determine whether or not they're on track to meet their college funding objectives.

With another annual reminder upon us, we encourage parents to have a thoughtful and honest conversation about the extent to which they're interested in contributing to their child's college education. Parents who are wholeheartedly content with the idea of student loans will have an entirely different discussion than parents who are committed to their child graduating debt-free. Once this decision is made, the discussion will eventually turn to how parents can best position themselves to meet their objectives.

College costs have been rising at a frightening rate throughout the last 20+ years. Today, it is not unusual for the annual costs (tuition, fees, room and board) associated with a private college education to exceed $65,000/year. The annual costs of some public university educations (with in-state tuition) are approaching (or sometimes exceeding) $30,000/year. These expenses will continue to increase while parents will be left to wonder how alarming these figures might be in 2035, when a 2017 newborn is likely to graduate from high school. So how do parents go about combatting this reality?

We are big proponents of saving early. In fact, most hospitals will facilitate parents receiving a newborn's Social Security card within just a few weeks of birth! Regardless of how much parents are interested in contributing or, more importantly, how much they can afford to save, parents should start saving early. The power of compounding (earnings on earnings) is significant as evidenced by the math below:

- $100/month contributed to an account for college (at birth) will grow to better than $42,000 by the time an 18-year-old graduates from high school (with the capital growing at 7%)
- $250/month contributed to an account for college (at birth) will grow to better than $105,000 by the time an 18-year-old graduates from high school (again, with the capital growing at 7%)

And while neither amount is likely to fully fund a college education, both should be a good start.

Where to save can oftentimes be as much of a dilemma for parents as how much to save. The information below should give you an elementary idea of the particulars associated with each savings vehicle:

- 529 Plan
  - Contributions are made on an after-tax basis for federal tax purposes; a state tax deduction may apply (maximum $2,000 annual deduction (per-child) available to Ohio residents as long as contributions are made to the OH 529 plan)
  - No income limitations for contributions
  - Earnings grow tax-free; withdrawals are tax-free provided funds go towards qualified higher education expenses
  - Funds can be applied to any accredited higher education institution, regardless of which state's 529 plan is utilized (OH 529 plan funds can be applied to a KY or TN university)

- Funds can be transferred between siblings, for any reason, or other certain relatives (as defined by the IRS)
    - Considered assets of the parents with the FAFSA - more beneficial than if considered assets of the child
- Coverdell Education Savings Account
    - Contributions are made on an after-tax basis for federal and state tax purposes
    - Contributions are limited to $2,000/year (per-child)
    - Income limitations do apply for contributions ($190,000 - $220,000 phaseout for married couples filing jointly)
    - Earnings grow tax-free; withdrawals are tax-free provided funds go towards private elementary, middle or high school education, or qualified higher education expenses
    - Funds can be transferred between siblings, for any reason, or other certain relatives (as defined by the IRS)
    - Considered assets of the parents with the FAFSA - more beneficial than if considered assets of the child
- UTMA/UGMA Account
    - Contributions are made on an after-tax basis for federal and state tax purposes
    - No income limitations for contributions
    - First $1,050 of income generated within the account is tax-free while the next $1,050 of income is taxed at the child's rate; income over and above $2,100 is taxed at the parents' rate (kiddie tax)
    - Withdrawals are tax-free and can go towards anything (college, travel, car, house, etc.)
    - Considered assets of the child with the FAFSA – less beneficial than if considered assets of the parents

These are just a few of the many challenges parents will encounter as the reality of college savings continues to confound parents everywhere. Having the help and guidance of a trusted advisor is important and should help to alleviate some of the stress associated with a very important decision for you and your children. We welcome any questions you may have and look forward to the opportunity to connect again soon.

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