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A College Education is Priceless

Paying For It Is Another Story

Throughout our lifetimes, most of us have the same two primary financial goals:

- Provide our kids with a good education and solid foundation to succeed in life;
- Accumulate enough assets to maintain a comfortable existence during our retirement years.

In some cases, however, these two goals may appear to be mutually exclusive. After all, with college expenses running through the proverbial roof, every dollar we spend on Junior is one dollar less we will have for that down payment on our second home in Vail. Tuition, fees, room and board at private colleges are running upwards of $32,000 a year and costs at public universities have topped the $12,000 mark according to The College Board's 2006 Annual Survey of Colleges. (And that doesn't include necessities like include fraternity dues or spring breaks in Cancun.) Additionally, education expenses are increasing each year at rates that far surpass traditional inflation.

Then again, a strong academic background could translate into that high-paying job that will enable Junior to support us well into our twilight years. While not everyone of our children will grow up to become CEO of a Fortune 500 company or start the next Google from the confines of our two car garage, they will have significantly greater earnings power with a college degree (and even more with a graduate degree).

The savings choices are many; the nuances can be confusing; the rules and limitations are ever-changing. Consider such important issues as tax consequences, income restrictions, investment options, plan flexibility, and fees and expenses. A brief explanation of a few of the most common vehicles follows:

Section 529 Savings Plans

- Tax-free growth and distribution when used for qualified education expenses
- Can contribute up to $60,000 in one year (considered five year contribution)
- Investment options may be limited and expenses may be higher than in other savings plans
- Non-qualified (non-education oriented) distributions are subject to penalties

Coverdell Education Savings Account

- Tax-free distributions when used for qualified expenses
- Contributions limited to $2,000 per beneficiary per year with limits based on income level
- Available for both primary (grade, middle, high school) and secondary (college) education
- Relatively low expenses

UTMA/UGMA (Custodial Trust Accounts)

- Income may be taxed at child's lower tax rate
- Great flexibility in terms of investment options with relatively low fees
- Irrevocable gift becomes the property of the child at age of majority (typically 21)
- Contributions may be subject to gift taxes

So begin your college planning early (and often) and determine which type of education savings account may work best for you and your children. After all, they may be helping to fund your retirement one day.