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"BACK TO SCHOOL"
By: JOHN MARTENS, CPA

As the summer draws to a close, and going "back to school" is on the minds of many, it is an appropriate time to revisit some of the ways to plan for meeting the future college education costs of your children.

It is not surprising to know that even public state sponsored universities can cost over $30,000 a year when you include tuition, room & board, books & supplies, etc. In addition, many professional degrees require 5 years rather than 4. The math is pretty straight forward, $120,000 to $150,000 to meet those needs. And that is today, obviously as the years pass inflation will increase that amount in future years. Parents who intend to help their children with this cost can help ease the burden by beginning to save early in their child's life. Parents of a newborn would need to save and invest $300 per month, with a 7% average annual return, to accumulate approximately $130,000 at their child's 18th birthday.

The government does provide some "tax incentive" savings plans for folks wanting to save for education. The rules surrounding these plans and their use are somewhat complex, so this is not intended to be an in-depth discussion, but a "broad brushstroke" of the more common plans available.

First, many of you have heard of the so called 529 College Savings plans. The 529 refers to the tax code section that spells out the details of the tax law surrounding the plan. The basic tax benefit of saving in this type of plan is that the earnings and increase in market value of the investment account will never be taxed if the money is used for college or post-secondary education costs.

Another tax incentive type plan, called an "Education IRA" or Coverdell ESA (education savings account), works like the 529 in that the growth in the account is not taxed if it is used for qualified education expenses. There is however, a $2,000 per year limit of contributions allowed into the plan, unlike the 529. There are also some differences in the education expenses allowed in this type of account compared to the 529, including that this account can be used for education expenses prior to college.

A third option is an investment account that has no "tax incentives", but is in the name of the child, for his/her benefit, such as a UTMA (Uniform transfer to minor) account. Although you do not get tax free growth in such an investment account, you are also not limited on what type of expenses you can pay with those funds.

In addition to the above three plans, there are other options, such as borrowing against life insurance policies that have cash value. Keep in mind that it does not need to be all of one or the other…you might use a combination of a couple of these accounts. No matter what you choose, it is important to understand the benefits and rules surrounding these options. Before making a choice consider reviewing them with your tax and/or financial advisor. The important thing is to start saving early……and often!

If you have questions about this or any other business or tax issue, please contact your Account Manager or John Martens, CPA, at (314) 205-2510 or via email at jmartens@connerash.com.