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## Many solutions are available to help you pay college costs

According to the College Board, the average cost for one year of college has climbed to almost \$30,000 for private four-year universities and over \$12,000 for public four-year institutions, according to the College Board. Those figures (for the 2005-06 school year) include tuition, fees, room and board— but not books, incidentals and travel. The College Board also advises parents to count on even higher costs in the future, since recent increases have averaged about 6-8% per year.

Fortunately, you have many solutions available to meet college costs, especially if you start planning early. In this article, we'll highlight the most popular ways to provide college funds or defray costs.

- **529 Plans**— State-sponsored versions of these plans are now available in all 50 states, and you aren't limited to the plan of your own state. Your Financial Professional can help you evaluate several attractive choices. In a 529 Plan, you set aside after-tax dollars on behalf of a beneficiary, and earnings grow on a tax-deferred basis. Distributions are not taxed, if taken for qualifying education expenses. As the account owner, you maintain control of the account and may change beneficiaries, subject to restrictions. Payouts from all Section 529 plans are eligible for this exclusion. In addition to state-sponsored plans, private colleges also may set up a form of Qualified Tuition Plan that allows tuition to be prepaid.
- **Education Savings Accounts (Education IRAs)**— These accounts allow annual contributions of up to \$2,000 per child per year. Distributions made for qualifying education expenses are tax-free, and the costs of high school or elementary school tuition can qualify in

some cases. A contribution can be made by joint filers with Modified Adjusted Gross Incomes (MAGI) of \$220,000 and single filers up to \$110,000.

- **Loans or Withdrawals from Permanent Life Insurance**— Parents often find it convenient to fund part of college costs by taking loans or withdrawals from permanent life insurance contracts, including whole life, universal life and variable life. Typically, the amount of the available loan or withdrawal is determined by cash value. In most contracts, loans may be taken tax-free. Life insurance also protects against the loss of a parent's income due to death before children complete college.
- **Traditional IRA Withdrawals**— If you have a Traditional IRA, you can make penalty-free withdrawals for purposes of paying qualifying colleges expenses for a child, grandchild or spouse (and also yourself). Ordinary income tax applies on the amount.
- **Federal tax credits**— Many parents can use two federal tax credits to meet a portion of costs. The Hope Scholarship credit applies in the first two years of college and can pay up to \$1,500 of the first \$2,000 of qualifying costs. The Lifetime Learning Credit applies even after the first two years and will reimburse 20% of the first \$10,000 in tuition and fees. In both cases, full or partial credits are available to joint filers up to \$114,000 of MAGI and single filers up to \$57,000.
- **Federal tax deduction for tuition**— Qualifying parents (as well as students) can claim a federal tax deduction of up to \$4,000, \$2000 or \$0 depending on the amount of your MAGI. For example, you qualify for deduction if MAGI is more than \$80,000 (\$160,000 if filing a joint return). The deduction cannot be

taken in the same year as a Hope or Lifetime Learning Credit is claimed for the same student.

- **Deductible interest on student loans**— If your child needs education loans and you repay them, you may qualify to deduct up to \$2,500 of the loan interest per year. To qualify for the full amount, you must have MAGI below \$105,000 for joint filers or \$50,000 for single filers. A partial deduction is available for joint filers up to \$135,000 and single filers up to \$65,000.
- **Employer-provided education benefits**— Some companies have set up programs that allow the organization to contribute education benefits on behalf of workers and their children. Federal law currently allows up to \$5,250 of employer-provided education benefits to be excluded from taxable income.
- **Financial aid**— According to the College Board, \$90 billion in financial aid was available to help college students last year— more than double the amount available ten years ago. In most cases, students must demonstrate financial need to qualify for this assistance.

### Time Is On Your Side

The more time you have available to save money for your child, the better your chances of meeting college costs will be. The tax advantages of 529 Plans and Coverdell ESAs' allow earnings to compound year after year, and distributions that you use to pay college costs should not be taxable. Don't waste another day of opportunity to help your child participate in the college experience. Your Financial Professional can help you select specific solutions that will work best.