College Funding Options

You can plan to meet the costs through a variety of methods.

Provided by Luke Trosclair

How can you cover your child's future college costs? Saving early (and often) may be the key for most families. Here are some college savings vehicles to consider.

529 college savings plans. Offered by states and some educational institutions, these plans let you save up to $15,000 per year for your child's college costs without having to file an I.R.S. gift tax return. A married couple can contribute up to $30,000 per year. (An individual or couple's annual contribution to a 529 plan cannot exceed the yearly gift tax exclusion set by the Internal Revenue Service.) You can even frontload a 529 plan with up to $75,000 in initial contributions per plan beneficiary – up to five years of gifts in one year – without triggering gift taxes.[1,2]

529 plans commonly feature equity investment options that you may use to try and grow your college savings. You can even participate in 529 plans offered by other states, which may be advantageous if your student wants to go to college in another part of the country. (More than 30 states offer some form of tax deduction for 529 plan contributions.)[1,2]

Earnings of 529 plans are exempt from federal tax and generally exempt from state tax when withdrawn, so long as they are used to pay for qualified education expenses of the plan beneficiary. If your child doesn't want to go to college, you can change the beneficiary to another child in your family. You can even roll over distributions from a 529 plan into another 529 plan established for the same beneficiary (or another family member) without tax consequences.[1]

Grandparents can start a 529 plan (or other college savings vehicle) just like parents can. In fact, anyone can set up a 529 plan on behalf of anyone. You can even establish one for yourself.[1]

These plans now have greater flexibility. Thanks to the federal tax reforms passed in 2017, up to $10,000 of 529 plan funds per year may now be used to pay qualified K-12 tuition costs.[2,3]

Coverdell ESAs. Single filers with modified adjusted gross income (MAGI) of $95,000 or less and joint filers with MAGI of $190,000 or less can pour up to $2,000 annually into these accounts, which typically offer more investment options than 529 plans. (Phase-outs apply above those

MAGI levels.) Money saved and invested in a Coverdell ESA can be used for college or K-12 education expenses.[3]

Contributions to Coverdell ESAs aren't tax deductible, but the accounts enjoy tax-deferred growth, and withdrawals are tax free, so long as they are used for qualified education expenses. Contributions may be made until the account beneficiary turns 18. The money must be withdrawn when the beneficiary turns 30, or taxes and penalties will occur. Money from a Coverdell ESA may even be rolled over into a 529 plan.[3,4]

UGMA & UTMA accounts. The custodian you select manages these all-purpose savings and investment accounts and are often used to save for college. When you put money in the trust, you are making an irrevocable gift to your child the account's assets until your child reaches the age when it terminates (i.e., adulthood). At that point, your child can use the UGMA or UTMA funds to pay for college; however, once that age is reached, your child can also use the money to pay for anything else.[5]

Whole life insurance. If you have a permanent life insurance policy with cash value, you can take a loan from (or even cash out) the policy to meet college costs. Should you fail to repay the loan balance, obviously, the policy's death benefit will be lower.[6,7]

Did you know that the value of a life insurance policy is not factored into a student's financial aid calculation? If only that were true for college savings funds.[6]

Imagine your child graduating from college, debt free. With the right kind of college planning, that may happen. Talk to a financial professional today about these savings methods and others.

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1 - irs.gov/newsroom/529-plans-questions-and-answers [2/20/18]

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Q. What is a 529 plan?

A. A plan operated by a state or educational institution, with tax advantages and potentially other incentives to make it easier to save for college and other post-secondary training, or for tuition in connection with enrollment or attendance at an elementary or secondary public, private, or religious school for a designated beneficiary, such as a child or grandchild.

Q. What is the main advantage of a typical 529 plan?

A. Earnings are not subject to federal tax and generally not subject to state tax when used for the qualified education expenses of the designated beneficiary, such as tuition, fees, books, as well as room and board at an eligible education institution and tuition at elementary or secondary schools. Contributions to a 529 plan, however, are not deductible.

Q. Can I make withdrawals from my 529 plan for tuition at elementary or secondary schools?

A. Yes. As of 2018, the term "qualified higher education expense" includes up to $10,000 in annual expenses for tuition in connection with enrollment or attendance at an elementary or secondary public, private, or religious school.

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Q. Can I make withdrawals from my 529 plan for the costs of computer technology or equipment?

A. A qualified, nontaxable distribution from a 529 plan includes the cost of the purchase of any computer technology, related equipment and/or related services such as Internet access. The technology, equipment or services qualify if they are used by the beneficiary of the plan and the beneficiary's family during any of the years the beneficiary is enrolled at an eligible educational institution.

Q. What does "computer technology or equipment" mean?

A. This means any computer and related peripheral equipment. Related peripheral equipment is defined as any auxiliary machine (whether on-line or off-line) which is designed to be placed under the control of the central processing unit of a computer, such as a printer. This does not include equipment of a kind used primarily for amusement or entertainment. "Computer technology" also includes computer software used for educational purposes.

Q. Is this "cost of the purchase of any computer technology or equipment or Internet access and related services" available for any other education benefit under the tax laws?

A. No, it is only for 529 plan withdrawals. Such costs are generally not qualifying expenses for the American opportunity credit, Hope credit, lifetime learning credit or the tuition and fees deduction.

Q. How long have 529 plans been around?

A. Congress created them in 1996 and they are named after section 529 of the Internal Revenue code. "Qualified tuition program" is the legal name.

Q. Can anyone set up a 529 plan?

A. Yes. You can set one up and name anyone as a beneficiary — a relative, a friend, even yourself. There are no income restrictions on on either you, as the contributor, or the beneficiary. There is also no limit to the number of plans you set up.

Q. Are there contribution limits?

A. Yes. Contributions can not exceed the amount necessary to provide for the qualified education expenses of the beneficiary. If you contribute to a 529 plan, however, be aware that there may be gift tax consequences if your contributions, plus any other gifts, to a particular beneficiary exceed $14,000 during the year. For information on a special rule that applies to contributions to 529 plans, see the instructions for Form 709, United States Gift (and Generation-Skipping Transfer) Tax Return.

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Q. Are there different types of 529 plans?

A. There are two basic types: prepaid tuition plans and savings plans. And each state has its own plan. Each is somewhat unique. States are permitted to offer both types. A qualified education institution can only offer a prepaid tuition type 529 plan.

Q. Am I restricted to my own state's 529 plan?

A. No. Your state's 529 plan may offer incentives to win your business. But the market is competitive and you may find another plan you like more. Be sure to compare the various features of different plans.

Q. Who controls the funds in a 529 plan?

A. Whoever purchases the 529 plan is the custodian and controls the funds until they are withdrawn.

Q. Each 529 plan account has one designated beneficiary. What does that mean?

A. A designated beneficiary is usually the student or future student for whom the plan is intended to provide benefits. The beneficiary is generally not limited to attending schools in the state that sponsors their 529 plan. But to be sure, check with a plan before setting up an account.

Q. Can I change the beneficiary of a 529 plan I have set up?

A. Yes. There are no tax consequences if you change the designated beneficiary to another member of the family. Also, any funds distributed from a 529 plan are not taxable if rolled over to another plan for the benefit of the same beneficiary or for the benefit of a member of the beneficiary's family. So, for example, you can roll funds from the 529 for one of your children into a sibling's plan without penalty.

Q. What is an eligible educational institution?

A. An eligible educational institution is generally any college, university, vocational school, or other postsecondary educational institution eligible to participate in a student aid program administered by the U.S. Department of Education. Note that, beginning in 2018, the term "qualified higher education expense" includes expenses for tuition in connection with enrollment or attendance at an elementary or secondary public, private, or religious school.

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Q. I have not set up a 529 plan for my child. Can I start one now and take advantage of this new computer benefit?

Answer: You can start one anytime. But the benefit of a 529 plan comes with the tax-free withdrawal of earnings that build up in the plan based on the contributions made. Like other types of savings accounts, earnings are usually a function of time. A 529 plan which is set up while the student is already enrolled in college or in other postsecondary education may not accrue enough earnings to be of immediate benefit. However, that doesn't mean that such a student wouldn't benefit from a 529 plan as his or her postsecondary education continues.

Q. Where can I find more information about 529 plans?

A. A good source is IRS Publication 970, Tax Benefits for Education.

Q. Is setting up a 529 plan for my child right for me?

A. Only you can figure that out. 529 plans are not for everyone, and are also not the only option available for paying for college. Setting up a 529 plan is an investment decision, which means both the benefits and drawbacks must be considered, along with alternative ways of accomplishing the same thing. There are many independent sources of information on 529 plans. Also, you may want to consider consulting a trusted tax professional or financial planner.

Related Items:

- Fact Sheet 2009-12, How 529 Plans Help Families Save for College; and How the American Recovery and Reinvestment Act of 2009 Expanded 529 Plan Features
- IR-2009-78, Special IRS Web Section Highlights Back-to-School Tax Breaks; Popular 529 Plans Expanded, New $2,500 College Credit Available
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2 - cnbc.com/2017/12/29/tax-bill-529-plan-provision-helps-families-save-on-school-costs-taxes.html [12/29/17]

This tax bill provision helps families save on school costs and taxes

- Starting in 2018, you can use up to $10,000 in 529 plan proceeds for elementary and high school costs.
- 529 plan contributions qualify for the $15,000 annual gift tax exclusion.
- More than 30 states allow income tax deductions for 529 plan contributions.

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Published 1:01 PM ET Fri, 29 Dec 2017
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As of Monday, parents will be able to ramp up on tax savings to help cover the cost of private school.

The Tax Cuts and Jobs Act has expanded the use of 529 plans – accounts that allow savers to accumulate money and pay for college on a tax-free basis – to include elementary and secondary school expenses at public, private or religious institutions.

That means individuals can take up to $10,000 in distributions annually from their 529 plans to pay for private school tuition and books through 12th grade – in addition to using their account proceeds for college costs.

"It's a great way to start saving for school, especially with the new tax bill going into law and hopefully offering larger refunds," said Jeff Fosselman, a certified public accountant and senior wealth advisor with Relative Value Partners in Northbrook, Illinois.

Individuals can also save on state and gift taxes when making contributions into the 529 plan.

Here's how to get the most out of this tax-advantaged savings account.

State tax savings

State tax savings

More than 30 states offer income tax deductions for 529 plan contributions.

Be aware that limitations may apply to your particular state: Most jurisdictions require that you pick your home state's plan in order to qualify for the deduction, said Fosselman.

Also bear in mind that your state's plan may not be the best one for you in terms of fees and performance.

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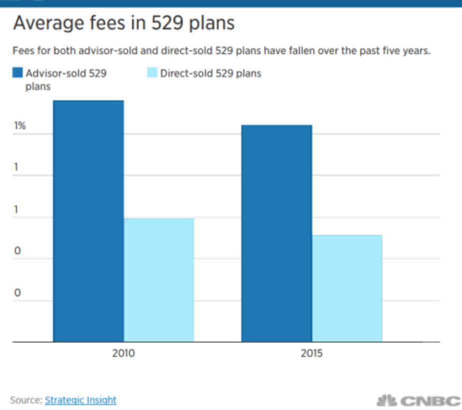


For instance, in 2017, Morningstar gave its highest ratings to the Bright Start College Savings plan in Illinois, Invest529 in Virginia, the Vanguard 529 College Savings Plan in Nevada and the Utah Educational Savings Plan. Morningstar's ratings include price and performance, along with other considerations.

To get the most tax savings

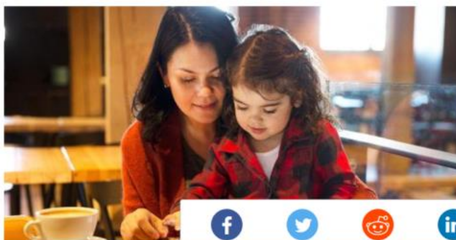
To get the most tax savings out of your 529 plan, it's best to fund the account and let it accumulate free of taxes.

"If you use it as a slush fund – you put in $10,000 and take out $10,000 – you get the state income tax deduction, but no tax-free growth," said Jeffrey Levine, a CPA and director of financial planning at BluePrint Wealth Alliance in Garden City, New York.

Superfund a 529

Anyone can make a contribution to your child's 529 plan, but those who are feeling especially generous can front-load the account with a large contribution.

Contributions to these savings plans qualify for the gift-tax annual exclusion, which is $15,000 per recipient in 2018 ($30,000 for benefactors who are married).



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Givers can maximize their tax savings by giving up to five years' of gifts in one year – or $75,000 per recipient – to a 529, and do so free of gift taxes.

Well-to-do relatives can also pay for beneficiaries' tuition or medical expenses free of taxes – even if those costs exceed the annual gift tax exclusion – provided the payments go directly to the provider of these services.

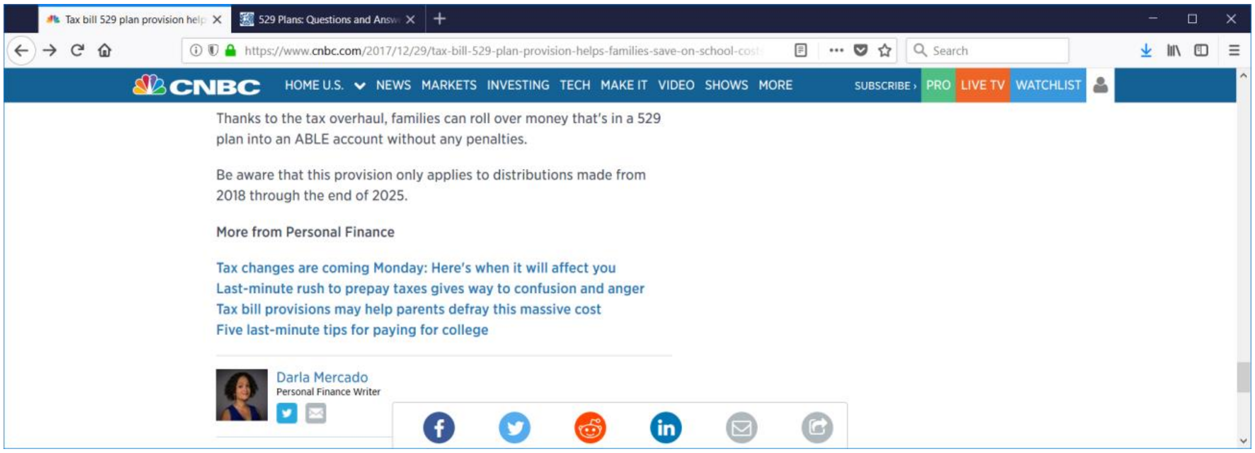
"If you're making the payment directly to the college, it's unlimited," said Fosselman of Relative Value Partners.

529 to ABLE

Parents of special needs children have only recently been able to access a tax-advantaged savings account that will allow them to use their funds for a range of expenses, including housing and long-term health care.

These are known as ABLE accounts, named after the federal Achieving a Better Life Experience Act, which passed in 2014.

Thanks to the tax overhaul, plan into an ABLE account v



Thanks to the tax overhaul, families can roll over money that's in a 529 plan into an ABLE account without any penalties.

Be aware that this provision only applies to distributions made from 2018 through the end of 2025.

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Yes, The Coverdell ESA Still Exists - And Here's Why You Should Care

Kathryn Flynn, CONTRIBUTOR
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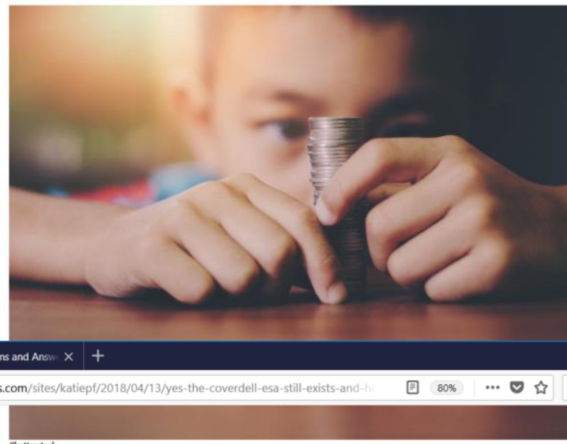
similarly to 529 savings plans, but they also offer some additional unique benefits.



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Coverdell Education Savings Accounts (ESAs) are tax-advantaged vehicles designed to help families save for elementary, secondary and college expenses. They operate similarly to 529 savings plans, but they also offer some additional unique benefits.

Coverdell ESAs have been around since 1998 - originally known as the Education IRA and later renamed after Senator Paul Coverdell (who sponsored the legislation that introduced them). The Economic Growth and Tax Relief Reconciliation Act of 2001 enhanced the benefits of using the Coverdell ESA, including:

• Increasing the annual contribution limits from $500 to $2,000 per beneficiary

• Offering tax-free withdrawals for K-12 expenses

• Allowing families who use Coverdell ESAs to claim other education tax benefits, as long as there is no "double-dipping"

These benefits were set to expire the end of 2012, which many feared would cause the Coverdell ESA to become obsolete. However, the American Taxpayer Relief Act of 2012 made the changes permanent, keeping the Coverdell ESA alive and a worthy competitor to the 529 college savings plan.

The Coverdell ESA experienced another scare in 2017, when the House Republicans proposed eliminating the accounts all together, and allowing 529 plans to be used for K-12 tuition expenses. Yet while the proposal regarding 529 plans was included, there was no mention of ending Coverdell ESAs in the Senate revision, or the final Tax Cuts and Jobs Act.

Coverdell ESA Vs. 529 Plans

Originally, one of the Coverdell ESA's biggest advantages over the 529 plan was that it allows tax-free withdrawals to pay for elementary and secondary expenses. But with the recent expansion of 529 plan benefits, is there really a need for another tax-advantaged education savings vehicle? For some families, yes - since the Coverdell ESA offers some benefits that you can't get from a 529 plan.

Qualified Expenses

Both Coverdell ESAs and 529 plans can be used to pay for qualified higher education expenses, as defined by the Internal Revenue Service. But the rules differ regarding K-12 expenses. Tax free withdrawals from 529 plans are limited to K-12 *tuition*, while Coverdell ESAs can be used to pay for qualified elementary and secondary expenses.

This includes not only tuition at an eligible K-12 school, but also books, supplies, equipment, academic tutoring and special needs services. And, if required or provided by school in connection with attendance or enrollment, it may also include the costs of room and board, uniforms, transportation and supplementary items and services, including extended day programs.

Each year, after a family takes the $10,000 maximum 529 plan distribution to pay for K-12 tuition, they have the option of withdrawing an additional $2,000 from the student's Coverdell ESA to pay for other qualified expenses. (Just remember not to double-dip if you claim the American Opportunity Tax Credit or Lifetime Learning Credit).

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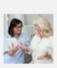

Investment Options

Another advantage of the Coverdell ESA over a 529 plan is the ability to self-direct investments. With a 529 plan, families are limited to investing in the investment portfolios offered by each plan, which include age-based options that automatically shift allocations over time as the beneficiary gets closer to college, or static options that consist of individual or multi-fund portfolios. 529 plan account owners are also limited to just two investment changes per year.

While there are thousands of 529 portfolios available, and each plan is specifically designed for education savings, some parents still want more control. Similar to an IRA, with a Coverdell ESA parents will have greater flexibility when it comes to selecting investments, and will be able to choose from individual stocks, ETFs, mutual funds and even real estate.

Coverdell ESA Limitations

Yet despite their benefits, Coverdell ESAs will likely continue to live in the shadows of the 529 plan. While almost anyone can invest in a 529 plan, regardless of income, the ability to take advantage of a Coverdell ESA phases out for parents with modified adjusted gross incomes between $190,000 and $220,000 ($95,000-$110,000 for single filers).

What's more, you're only able to contribute $2,000 per year for each beneficiary, and only until they turn 18. Funds in the account must be spent by the time the student turns 30, and at that time, any funds not withdrawn within 30 days may be subject to taxes and penalty. To avoid this, you can change the beneficiary on the account to another qualifying family member or roll the balance in to a 529 plan.

Another key difference between a Coverdell ESA and a 529 plan is that a Coverdell ESA operates more like a custodial account, where the funds are the property of the beneficiary and cannot be revoked. With a 529 plan, the account owner, not the

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beneficiary, retains control of the assets over the life of the account.

How to open a Coverdell ESA

Parents who meet the eligibility requirements can open a Coverdell ESA through a brokerage account, bank, credit union or mutual fund company. Unlike 529 plans, Coverdell ESAs are not operated or administered by the states, so there are no state tax benefits available. But, just as you would shop for a 529 plan, you'll want to compare costs, including annual maintenance fees and transaction costs, and explore the available investment options.

You may find that the brokerage you use for your retirement savings or other accounts doesn't offer Coverdell ESAs. For example, Fidelity Investments, one the largest and most popular brokerages, does not offer Coverdell ESAs as a college savings option. The same holds true for mutual fund companies. American Funds offers Coverdell ESAs, but Vanguard no longer accepts applications for new Coverdell ESAs (but they will continue to service existing accounts). Parents who want to invest in Vanguard funds and ETFs may want to consider opening a Coverdell ESA through TD Ameritrade.

It's unlikely that a Coverdell ESA will replace your 529 plan, but it's something to consider if you'll have K-12 expenses beyond tuition costs or want greater diversity for your college savings investments.

Kathryn Flynn is content director at Savingforcollege.com, a leading source of unbiased information about 529 plans and other ways to save and pay for college. Follow her on Twitter and Linkedin.

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A Coverdell education savings account (Coverdell ESA) is a trust or custodial account set up in the United States solely for paying qualified education expenses for the designated beneficiary of the account. There are certain requirements to set up a Coverdell ESA:

- When you establish the account, the designated beneficiary must be under the age of 18 or be a special needs beneficiary.
- You must make the designation of the account as a Coverdell ESA when you create it.
- The document creating and governing the account must be in writing, and it must meet certain requirements.

You may be able to contribute to a Coverdell ESA to finance the beneficiary's qualified education expenses. Contributions must be made in cash, and they're **not** deductible. Any individual whose modified adjusted gross income is under the limit set for a given tax year can make contributions. Organizations, such as corporations and trusts can also contribute regardless of their adjusted gross income. Contributors must contribute by the due date of their tax return (not including extensions). There's no limit to the number of accounts that can be established for a particular beneficiary; however, the total contribution to all accounts on behalf of a beneficiary in any year can't exceed $2,000.

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In general, the designated beneficiary of a Coverdell ESA can receive tax-free distributions to pay qualified education expenses. The distributions are tax-free to the extent the amount of the distributions doesn't exceed the beneficiary's qualified education expenses. If a distribution exceeds the beneficiary's qualified education expenses, a portion of the earnings is taxable to the beneficiary. Amounts remaining in the account must be distributed when the designated beneficiary reaches age 30, unless the beneficiary is a special needs beneficiary. Certain transfers to members of the beneficiary's family are permitted.

For information on how to determine the part of any distribution that is taxable earnings, refer to Chapter 7 of Publication 970.pdf, *Tax Benefits for Education*.

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UGMA & UTMA Custodial Accounts

In most states, minors do not have the right to contract, and so cannot own stocks, bonds, mutual funds, annuities and life insurance policies. In particular, parents cannot simply transfer assets to their minor children, but instead must transfer the assets to a trust. The most common trust for a minor is known as a custodial account (an UGMA or UTMA account).

The Uniform Gift to Minors Act (UGMA) established a simple way for a minor to own securities without requiring the services of an attorney to prepare trust documents or the court appointment of a trustee. The terms of this trust are established by a state statute instead of a trust document. The Uniform Transfer to Minors Act (UTMA) is similar, but also allows minors to own other types of property, such as real estate, fine art, patents and royalties, and for the transfers to occur through inheritance.

To establish a custodial account, the donor must appoint a custodian (trustee) and provide the name and social security number of the minor. The donor irrevocably gifts the money to the trust. The money then belongs to the minor but is controlled by the custodian until the minor reaches the age of trust termination. The custodian has the fiduciary responsibility to manage the money in a prudent fashion for the benefit of the minor. Custodial accounts are most often established at banks and brokerages.

Any money in custodial accounts for which you are the custodian will be counted as part of your taxable estate if you are the legal guardian of the child and the child has not yet reached the age of trust termination.

The income from a custodial account must be reported on the child's tax return and is taxed at the child's rate, subject to the Kiddie Tax rules. The parent is responsible for filing an income tax return on behalf of the child.

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a/utma account rules

There is no special tax treatment for UGMA accounts. Children aged 14 and older must sign their own tax returns.

Neither the donor nor the custodian can place any restrictions on the use of the money when the minor becomes an adult. At that time the child can use the money for any purpose whatsoever without requiring permission of the custodian, so there's no guarantee that the child will use the money for his or her education. Also, since UGMA and UTMA accounts are in the name of a single child, the funds are not transferrable to another beneficiary.

Impact on Student Aid Eligibility

For financial aid purposes, custodial accounts are considered assets of the student. This means that custodial bank and brokerage accounts have a high impact on financial aid eligibility.

However, since 2009-10 the treatment of custodial 529 college savings plans has been more favorable. A custodial 529 plan of a dependent student is treated as an asset of the parent on the Free Application for Federal Student Aid (FAFSA). This means that a custodial 529 college savings plan for a dependent student has a low impact on financial aid eligibility. Thus one method of dealing with the financial aid impact of a custodial bank or brokerage account is to liquidate the account and transfer the proceeds into a custodial 529 plan account.

If money is transferred from an UGMA/UTMA account to a section 529 plan, the section 529 plan should be titled the same as the UGMA/UTMA account. When the child reaches the age of trust termination, the child will become the account owner for the section 529 plan. The custodian is not permitted to change the beneficiary of the section 529 plan, because the responsibility of the custodian to use the assets of the UGMA/UTMA account for the benefit of the child does not terminate when the funds are withdrawn from the account.

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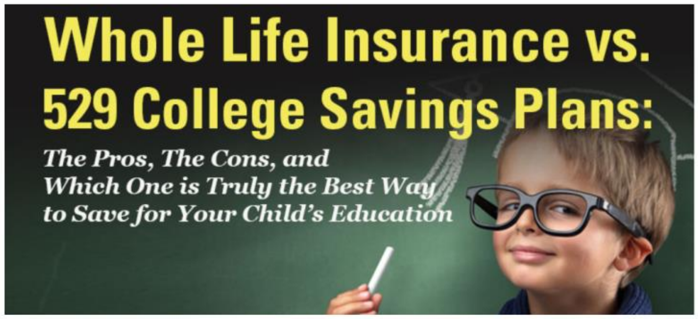

At the top of parents' long-term goals for their children is making sure their children receive a high-quality education.

But as college costs climb and climb with no end in sight, it's become harder each year to afford a high-quality college education without taking on a crater-sized debt.

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life insurance vs. 529

The most popular vehicle parents use to save for their children's college education is the 529 College Savings Fund. But lately, a newcomer has entered the fray: Whole Life Insurance. Well, it's hard to call whole life insurance a "newcomer" because it's been around since Civil War – before a college education was even considered a possibility for middle-class families.

Nevertheless, whole life insurance has also become a popular way to save for college – giving parents two strong options. This report will sort out the pros and cons of both and show you which one is truly the best way to save for your children's college education.

529 College Savings Plans – The Pros and Cons

College saving plans (commonly referred to as 529 plans) have gained much fanfare in the past decade – especially as tuition costs rise while the average American's salary remains stagnant.

Indeed, there's a lot to like about them. First, as most know by now, accumulated earnings are tax-deferred and withdrawals are exempt from federal income tax and state taxes when used for "qualified higher education expenses."

Other benefits include:

- Friends and family members can also contribute to a 529 plan.
- The account holder can change the beneficiary if the original beneficiary decides not to go to college or does not use all the funds.
- 529 plan funds can be used at the vast majority of most colleges and universities in the United States.

But there are drawbacks:

- Plans vary from state to state. And many states allow you to open a 529 Plan in their state without even being a resident in it. This element alone multiplies the time and effort a family has to spend researching the different plans offered by each state. Investment options, sales charges, account fees – all differ between plans. The overload of options and the time spent researching each can be a serious source of stress that causes a family to delay even starting a fund.
- If money from a 529 plan is withdrawn and not spent on what's considered a "qualified higher education expense," it would likely be subjected to income taxes and a penalty tax as high as 10%. We all know that college expenses don't stop at room, board and books. Working in such a big gray area of uncertainty is often not worth the risk of paying unexpected taxes on a big ticket item (i.e. car) that is college related to you but not to the guidelines of the 529 plan.
- Finally, a 529 plan can reduce your beneficiary's ability to receive income-based financial aid. If this happens, it can render the savings plan useless since it just increased the total amount of money you'll pay for higher education.

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Why 529 Plans Are Losing Their Cool

You'd think that with the ever growing importance of a college education – combined with wildly escalating tuition prices – the popularity and reliance on 529 College Savings Plans would increase as well.

But according to a recent Christian Science Monitor article...

> *"Assets in 529 college savings plans (which differ from 529 prepaid tuition plans) fell from a record high in the first quarter to $157.5 billion in the second quarter – a 0.5 percent decrease, according to Financial Research Corp. (FRC) in Boston. In the third quarter of 2011, net inflows were negative – more funds flowed out than flowed in – the first time that happened since the middle of the Great Recession. In the first half of this year, net inflows were nearly 7 percent below the same period last year and about 60 percent below The second quarter's $2.9 billion in net inflows (contributions minus withdrawals) were 12 percent lower than they were a year earlier, and down nearly half from their prerecession heyday in the mid-2000s."*

When you think about it, the mid-2000s were the heyday for a lot of things whose stars have fallen dramatically. Less than a decade later, we're living in a very different world. And more and more people are starting to realize that the "Emperor (529 Plans) has no clothes."

That, and they are also realizing that whole life insurance, specially cash value life insurance, as a college savings tool is a better option.

One of those people, according to the article, is a former stock broker Brian Solik. Given his profession, if anyone would know firsthand that we're not living in the mid-2000s anymore, it's him. After the stock market crash in 2008, he stopped contributing to the three 529 plans for his children and instead began using cash value life insurance for college savings.

His reason – no surprise – was safety. Taking a hit to your investment portfolio is one thing. You have to expect that to a certain degree. But when your children's college savings starts losing value, it's time to rethink your strategy.

Whole Life Insurance – The True Solution for College Savings

Whole life insurance is hands down the better college savings plan than actual college savings plans.

Among whole life insurance benefits:

- Whole Life allows you to save for any person, business or charity regardless of their relation to you. You can also choose multiple beneficiaries, divided up to receive whatever percentage you set for each. This is a far greater area of flexibility compared to college savings plans, which limit your beneficiaries to family members and close friends.

Whole Life Insurance vs. 529 Colleg ×

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- Whole Life plans offer unlimited ways to spend your money. Money withdrawn from a college savings plan is only allowed to be spent on pre-qualified college expenses or else be subjected to federal income tax and possibly a 10% federal tax penalty. Last time I checked, college students ate food, buy clothes, put gasoline in their cars, etc. Whole life plans can help pay for this without penalizing the student.
- Whole Life plans have attractive interest rates, regular dividends and no downside risk. That's right, zero risk. Whereas many college savings plans are subject to the turbulent stock market. Can you imagine putting money away for years only to find out that what you cash out is less than the amount you put in?
- Whole Life plans won't *jeopardize a student's chances of getting additional financial aid.* Compared that to money in a college savings fund, which is factored into the financial aid calculator.
- And most importantly, guaranteed completion. By that, I mean a Whole Life plan has the ability to guarantee that a savings target will self-complete under all circumstances.

It's amazing that this secret hasn't spread like wildfire. Perhaps that can be attributed to the name – whole life insurance. Few people know that it can do so much more than insuring the loss of loved one – for everything that happens in life from college and retirement. It's time that the world knows more about the full capacity of whole life insurance.

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MarketWatch

Parents: Here's a primer for college savings

By Andrea Coombes
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A 529, Roth IRA, insurance: What's best way to pay for college?

Dan Kitwood/Getty Images

Parents want to get their kids to this point with a minimum of financial drama.

Parents looking to plan for their children's college costs may need to go back to school themselves to choose among the potential options for saving money. From 529 plans to Roth IRAs to Coverdells and life insurance, there are numerous ways to save for school costs—and each savings vehicle has its own ins and outs.

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Did you know, for example, that the much-heralded 529 plans come in two different flavors? There are investment-based savings accounts and prepaid tuition plans. And while 529s and Coverdells are designed solely for education savings, other options include life insurance policies that allow you to save on a tax-deferred basis for any future expenditure, and Roth IRAs, which offer the opportunity for retirement savers to divert money to college costs without penalty.

Read: Your kid may have a better shot at a scholarship by playing these sports

What's clear is that saving is important. A four-year private college averages $32,410 a year for tuition and fees, while average in-state tuition and fees for a public school is about $9,410, according to the College Board, a nonprofit association of colleges. That said, on average, families pay about $3,980 a year for public four-year schools, thanks to financial aid.

Read more about college costs

So, which type of savings account is best for you? To make the decision a little easier, I asked experts to lay out some of the pros and cons of each option. Keep in mind that the following is not an exhaustive list, and don't forget that, unfortunately, there are no easy answers to the question of where to save. As with most personal-finance decisions, the best product for you will depend on your financial situation.

529 college savings plans

One type of 529 plan is the college savings plan, in which parents, grandparents or whomever—even the student, as long as she's at least 18 years old, can open one—invest money that grows tax-free on behalf of the beneficiary. As long as it's used to pay for qualified higher-education expenses, the money, including any earnings, comes out tax-free. (The other type of 529 plan is the prepaid tuition plan. More on that below.)

The pros: The tax-free growth of your savings is a major benefit, plus many states offer a state tax deduction, too. If the beneficiary ends up not going to college, you can transfer the account to a different beneficiary in the same family. Most plans allow other people, not just the account owners, to contribute, allowing others to make a valuable gift to the child. There are no income limits restricting who can set up an account, and the lifetime maximum contribution limits tend to be in the six figures (amounts vary by state). While you risk gift taxes if you give more than $14,000 to any one person in a year, a husband and wife conceivably could contribute $28,000 for each of their children or grandchildren each year. And it's possible to front-load the gifts you would have made over five years; that is, you can avoid gift taxes even if you give $70,000 in one year, or $140,000 as a married couple, assuming you don't give other gifts to that same beneficiary for five years.

The cons: Some plans don't offer a great investment menu, says Beth Lynch, a certified financial planner and investment adviser with Schneider Downs Wealth Management Advisors in Pittsburgh. In contrast, she says, "With a Roth IRA, you open up a brokerage account—you can buy the universe." Still, she adds, 529 plans are "a great way to save" for college costs.

Another potential "con" is high investment fees: it's important to shop for a low-cost plan (a direct-sold plan is likely to be cheaper than an adviser-sold one) and, if your state's plan is expensive, to weigh the benefit of the state tax deduction against a lower-cost out-of-state plan (note that a handful of states let you take the state tax deduction even if you invest in an out-of-state plan). Then, there's the fact that if you withdraw money from your 529 and don't use it for qualified higher-education costs, you will owe income taxes and a penalty on any earnings.

Last but not least, consider financial-aid implications. Generally, the financial-aid offer will be reduced by about 5% to 6% of the assets in the parent-owned account, and distributions are ignored in the calculation. That's not a bad deal, says Mark Kantrowitz, the Chicago-based publisher of Cappex, a free website about college admissions and financial aid.

In contrast, he says, "If the account is owned by anybody else—grandparent, non-custodial parent, aunt, uncle—it's not reported as an asset on the FAFSA, but any distributions are counted as untaxed income to the beneficiary, and untaxed income will reduce aid eligibility by as much as half of that distribution amount." (FAFSA is the Free Application for Federal Student Aid, the form that students fill out each year to apply for aid.) If you open an account on behalf of someone who is not your child, do the research on strategies to avoid that significant financial-aid hit.

529 prepaid tuition plans

With a prepaid plan, you essentially buy future tuition at today's prices. Specific rules may vary by state, but essentially you're locking in your child's college costs now.

The pros: Theoretically, these accounts provide "peace of mind," Kantrowitz says, "knowing that if you bought a year's worth of tuition it's always going to be worth a year's worth of tuition." They also sidestep the problem inherent in investment-account 529s: figuring out the best way to invest your money.

The cons: Here's where that "theoretical" peace of mind comes in: Due in part to steep tuition inflation, some prepaid plans have changed their calculations. Account owners may find that their credit for, say, a year's worth of college may not cover the full costs of that year. "Some states have run into actuarial shortfalls and have had to make changes, such as freezing the value as of a particular date," Kantrowitz says, in part because the plans' investment earnings didn't rise as fast as tuition inflation.

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Roth IRAs

If you've owned your account for at least five years, you can always pull out your contributions entirely tax- and penalty-free. While generally there is a penalty for withdrawing your investment earnings before age 59-1/2, that penalty is waived if the money goes to qualified education expenses for you or your child.

The pros: The range of investment options is much greater than in a 529 plan, says Chris Horan, CFP and associate wealth adviser with Strategic Wealth Partners in Independence, Ohio.

Also, he says, if the parent doesn't need the money for college costs, "those funds can be reallocated and continue on for retirement savings."

The cons: While the penalty for withdrawing your Roth IRA earnings is waived for higher-education expenses, you'll still owe income tax on those earnings. Also, while the assets in an IRA are not counted in financial-aid calculations, distributions may be considered "untaxed income" and substantially reduce the student's aid offer. Another major negative: using this money for college costs reduces your retirement savings. "It puts saving for college and saving for retirement in conflict," Kantrowitz says. And don't forget: there are income thresholds that limit who can contribute to a Roth.

Cash-value life insurance

There are a variety of flavors of whole, universal or variable life insurance policies, but the gist of it is you can build up a balance that you can withdraw money from or borrow against, thus providing a source of college funds.

The pros: The big benefit is flexibility. "If your child doesn't end up going to school, you can use the funds any way you like," says Laura Adams, senior insurance analyst at insuranceQuotes.com, a site that lets consumers request and compare quotes on a variety of insurance products. And if you don't take out more than the premiums you paid, the money comes out tax-free.

The cons: These are not easy products to compare and shop for. "Permanent policies can be complex and there are many different types to choose from," Adams says. "They also typically come with upfront and ongoing fees, which can erode gains in the account."

That's worth repeating: these products aren't cheap. "The only people who are really recommending it are people earning commission by selling it," Kantrowitz says.

Finally, Adams says, remember that "taking a loan from a permanent life insurance policy to pay for college reduces the policy's death benefit…find out what's available and compare the returns and fees of all your savings options."

Coverdell education accounts

You can put up to $2,000 a year into a Coverdell account. The money you put in is after-tax, but your distributions, including any earnings, come out tax-free as long as you use the money for qualified education expenses.

The pros: While 529 plan distributions must be used for college, Coverdell money can pay for that pricey private K-8 or high school.

The cons: Once the beneficiary is 18 years old, contributions must stop. The entire account must be disbursed by the time the beneficiary is 30 years old. (Rules for special-needs beneficiaries are different.) The maximum annual contribution is $2,000. People with adjusted gross income above $110,000 (single)/ $220,000 (joint) can't contribute to such plans.

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UGMA/UTMA accounts

These accounts — the acronyms stand for Uniform Gifts to Minors Act and Uniform Transfers to Minors Act—allow people to gift securities and other assets to minors. They offer tax advantages for the ultrawealthy to the extent they can shift some of their wealth to younger relatives. But for many college savers, the advantages of a 529 plan surpass the advantages of these accounts.

The pros: There is some ability to split income with your child, but it's limited due to the kiddie tax, Kantrowitz says.

The cons: These accounts can have "a really harsh impact on aid eligibility," Kantrowitz says, adding that the financial-aid offer may be reduced by as much as 20% to 25% of the account's value. However, money in an UTMA or UGMA account can be rolled over into a custodial 529 plan.

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