# Helping Parents Save for Their Child's College Education



**In today's world, attending college and graduating with a specialized degree offers many advantages to young students. Not only does a college education set people a part in the job market, it also opens up different opportunities in various fields.**

Even though there are many benefits to receiving a college education, some parents worry about how to help their child pay for tuition. Many students resort to taking out extensive student loans and using financial aid to afford college, however, there are many things that parents can do now to help their child when it comes time to send them off. Here are some ways you can prepare and save for your child's college education.

## Think About Saving Now

As the costs of college continue to increase, it is critical that parents start thinking about saving for college sooner rather than later. Start with whatever amount you can afford, and add to it over the years with raises, tax refunds, unexpected windfalls, and the like. If you invest regularly over time, you may be surprised at how much you can accumulate in your child's college fund. Historically speaking, college costs have been rising on average of 3% to 5% a year, so saving up money as soon as possible is ideal. Even if your child is still young, the sooner you start preparing and saving, the better off your child will be down the road.

| Monthly investment | 5 Years | 10 Years | 15 Years |
|---|---|---|---|
| $100 | $6,977 | $16,388 | $29,082 |
| $300 | $20,931 | $49,964 | $87,246 |
| $500 | $34,885 | $81,940 | $149,409 |

*Note: Table assumes an average after-tax return of 6%. This is a hypothetical example of mathematical principals, is used for illustrative purposes only, and does not reflect the actual performance of any investment. Fees, expenses, and taxes are not considered and would reduce the performance shown if they were included. Actual results will vary. All investing involves risk, including the possible loss of principal, and there can be no guarantee that any investing strategy will be successful.*

## Fund a Certain Amount

Another thing to consider is setting a limit as to how much of the tuition you will save for. Because many parents cannot afford to put away money for the entire college tuition, it might be worth it to set a goal of 50% or 75% of the cost of a four year private or state school. That way, your child will have a firm financial foundation.

## College Savings Accounts

When it comes to saving for college, it is important to determine what kind of account you want to start depositing money into. There are accounts specifically created to help parents save for their child's future, so that you can have peace of mind knowing that you will be able to help pay for college tuition.

- **529 Plans**

  A 529 Plan is a popular college savings account among parents and grandparents, although anyone may open a 529. Contributions grow tax deferred and withdrawals are tax free at the federal level if the monies are used for qualified education expenses. Each state has a different version of a 529 plan and may offer their own tax advantages. These savings plans can be used to pay for tuition at any accredited college. The contribution lifetime limit is $350,000, and the beneficiary can use it to pay for a variety of college-related expenses, including room, board, books and supplies.

  The most common 529 plans are categorized as either College Savings Plans or Prepaid Tuition Plans. The College Savings Plan is more popular, and invests after-tax contributions into mutual funds or something similar. The Prepaid Tuition Plan allows you to prepay part or all of the cost of tuition at an in-state public college at the current rate. This plan allows parents to lock in a specific rate for college tuition, so they do not need to worry about the rising cost of tuition.

- **Coverdell Education Savings Account**

  The Coverdell Education Savings Account (ESA) is another college savings account, but on a smaller scale. The funds put into the Coverdell ESA can also grow tax deferred and earnings are tax free at the federal level, as long as the money in the account is used for college education. The account holder has more control over the account and how the funds are invested, however, you can only contribute $2,000 per year for a beneficiary. Unlike the 529 plan, not everyone can open a Coverdell ESA, as there are income restrictions.

- **Roth IRA**

  Some parents opt to open a Roth IRA account to save for their child's college education, instead of a traditional college savings account. A couple of the benefits of a Roth IRA are that contributions into this type of account can be withdrawn at any time (without restrictions on how the funds are spent) and funds grow tax deferred. There is a contribution limit of $6,000 put on Roth IRAs, and $7,000 if you are over the age of 50.

**To learn more about how Blackhawk Bank can help you prepare for the future, contact us today!**