Saving for College: What You Need to Know

College is expensive. Costs can include tuition, books, room and board, and travel. In many cases, the price tag of a four-year degree can exceed six figures. While actual costs will depend on the selected school, many families rely on a combination of savings, loans, grants and scholarships to pay the tab. Whichever sources of funding you choose, there are important considerations to keep in mind as you plan for the expense of higher learning. Here are a few.

Time is your friend. The sooner you start saving for any long-term goal, the better. Save when your child is young to give your education nest egg time to grow. There are a range of tools available to help you save for future college expenses.

- The **529 plan** is specially designed to pay for higher education costs. Contributions to the 529 plan are made on an after-tax basis and grow tax free; these contributions may be eligible for a state income tax deduction or tax credit. The principal portion of a 529 plan distribution isn't subject to federal taxes. Additionally, the earnings portion of a 529 plan distribution isn't subject to federal taxes, and in most cases, state taxes, as long as the distribution is used for the beneficiary's eligible K-12 and postsecondary education expenses including tuition, books, and room and board when the beneficiary begins their studies.[1]
- A **Coverdell Education Savings Account** also offers tax-advantaged saving. Income eligibility and contribution levels are lower than a 529 plan.
- **U.S. savings bonds** are low-risk investments that provide modest returns with limited tax benefits.
- A **custodial UGMA/UTMA account** enables unlimited investing on behalf of a minor. Assets in the account can be used for anything. Earnings may be subject to taxes, and parents lose control of the account when the child reaches maturity.
- Another way to save on college costs is through a **pre-paid tuition plan**, which locks in tuition at current rates and is available for a short list of state schools. You can fund the plan with installment payments. A longer list of private schools offers pre-paid tuition through a **Private College 529 Plan**.
- You can also save for future college expenses in a regular **savings account** or **Individual Retirement Account (IRA)**.

A note about FAFSA. Your expected family contribution (EFC) is calculated when you apply to the Free Application for Financial Student Aid (FAFSA®). Your EFC reduces the amount of eligible federal funding your student can receive. If you are unable to meet your EFC, you or your student may need to look to other sources of funding to fill the gap.

Students can contribute, too. Young adults who carry some of the financial burden of their degree may be more prudent about their college choice. They might be more motivated to start out at a community college or live at home and work part-time while attending college if it means taking on less debt.

Your future comes first. Most financial experts recommend that parents put their retirement goals ahead of their children's college costs. Students have a lifetime ahead of them to pay back school loans. Consult a qualified financial advisor who can help you create a financial plan designed to meet your family priorities.

###

Darryl Ruffen, CFP®, MBA is a Financial Advisor with Ameriprise Financial Services, LLC, in Danvers, MA). He specializes in fee-based financial planning and asset management strategies and has been in practice for 21 years. To contact him you may call (978) 777- 8382, Joanne Reilly and Associates, 175 Andover St., Suite 304, Danvers, MA 01923. http://www.ameripriseadvisors.com/darryl.r.ruffen/.

Ameriprise Financial and its affiliates do not offer tax or legal advice. Consumers should consult with their tax advisor or attorney regarding their specific situation.

[1] Earnings on nonqualified withdrawals are subject to federal income tax and may be subject to a 10% federal penalty tax, as well as state and local income taxes. The availability of tax or other benefits may be contingent on meeting other requirements.

Investment advisory products and services are made available through Ameriprise Financial Services, LLC, a registered investment adviser.

Investment products are not insured by the FDIC, NCUA or any federal agency, are not deposits or obligations of, or guaranteed by any financial institution, and involve investment risks including possible loss of principal and fluctuation in value.

Ameriprise Financial Services, LLC. Member FINRA and SIPC.

© 2023 Ameriprise Financial, Inc. All rights reserved.

File # 4918055-RUSH (Approved 09/30/2024)