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Saving for Your Child's Education

Saving for your child's education is undoubtedly a daunting task. College tuition costs and fees are consistently increasing year after year, leaving parents and students wondering how they can properly save to avoid significant debt following graduation. According to Sallie Mae, only 56 percent of parents who expect their child to attend college have started saving, and even fewer have developed a specific plan to cover secondary-education expenses. If you are wondering how to start planning for your child's education, read on to learn about some of the savings options available to you, when you should start saving, and how much you should save.

- **Personal Savings**

  The most basic way to start saving for your child's education is to open a standard savings account dedicated solely to education expenses. If your financial situation allows it, consider opening a money market account or certificate of deposit. These alternative methods usually pay a higher rate of interest and allow your savings to grow more quickly than a standard savings account. In exchange for higher interest rates, these alternative methods require a higher minimum balance to open and have other restrictions. While a money market account limits the number of transfers and electronic payments that you can make per month, the funds that you place in a certificate of deposit are typically inaccessible for the chosen term (ranging from 3 months to 5 years). If you decide to withdraw funds from a certificate of deposit before its maturity date, you will have to pay a withdrawal fee.

  Learn more about the personal savings options offered by the Institution for Savings here.

- **529 College Plan**

  A 529 college plan allows the holder to invest after-tax money into an account that can later be accessed to fund a beneficiary's education. Funds can be withdrawn tax-free, but only for qualified education expenses. A 529 plan allows holders to make large investments (up to $300,00 in most states), but retrieving your money can become complicated if your child decides not to attend college. In this situation, you can change the beneficiary of the plan or use the funds to cover expenses for private K-12 education. Generally, a 529 plan always covers tuition costs and mandatory fees and might also cover technology expenses (such as a laptop), internet service, meal plans, or room and board. However, a 529 plan cannot be used to pay for cell phone, transportation, or elective activity expenses or student loans.

  If you choose to save for your child's education with a 529 college plan, you have the option of selecting either a college savings plan or a prepaid tuition plan. A college savings plan allows the funds to be spent on qualified education expenses at any eligible school. Meanwhile, a prepaid tuition plan allows the funds to be used to prepay for one or more semesters at a specific school (or several specific schools) at the current price. While a prepaid tuition plan allows you to avoid yearly increases in tuition costs, this plan might have more restrictions regarding eligible expenses and complications might arise if your child decides not to attend the designated school(s).

A 529 college plan offers attractive tax advantages and ensures that your savings will be used for education expenses. The best depends on your individual financial situation and your child's unique education plan and preferences.

When should I start saving?

It is never too early to start saving for your child's education, even if he or she is still many years away from heading off to college! The earlier you start saving, the more interest your contributions will earn in the long-run.

In the beginning, consider automatically depositing a small portion of your paycheck into your child's education savings each month. As your child grows older, gradually scale up the amount you save each month; consider using one of the aforementioned savings methods with a higher interest rate (i.e., a money market account or certificate of deposit, or education-specific investment account such as a 529 plan.

How much should I save?

How much you should save for your child's education depends on several factors: your specific financial situation, including whether your child will qualify for financial aid, the percentage of your child's education expenses that you plan to cover, and whether your child plans to attend a public or private institution. One way to determine how much to save for your child's education is to divide the current projected cost by the number of months remaining until your child heads to college. You can then incorporate this amount into your monthly budget and start saving on a regular basis.

Another strategy, suggested by Fidelity Investments (assuming you use a 529 college plan), is to multiply your child's age by $2,000 as an approximate measure of whether you are on track to cover half the average cost a four-year, public institution.

Additionally, if you have a list of schools to which your child plans to apply, you can use each school's Net Price Calculator (provided on their websites) to get an estimate of the financial aid package that your child will receive if he or she is accepted. However, keep in mind that your child's financial aid package will not necessarily be comprised entirely of grants and scholarships, but will likely also include work-study programs and student loans.

To gauge your savings progress, check out Fidelity Investment's college savings calculator here.

Questions? Call us at 978-462-3106 or email us at info@institutionforsavings.com.