

Fiscal Fitness



Graduating Costs

College Funding revisited

August 2005

As the calendar turns to August, parent's stomachs also turn at the thought of arriving education bills. And for good reason: higher education costs rose an average of 10-12% in 2004. The 2004 average tuition/room & board cost \$11,400 for (in-state) public universities and an astounding \$27,500 for private.¹ To calculate your personal education expense (warning: may induce depression) – visit collegeboard.com. Without question, education costs are far outpacing inflation, and more importantly, wage growth. But the good news is these expenses can be off set with timely planning and favorable tax breaks. Let's review some primary saving vehicles.

529 Plans

We have covered them in previous *Fiscal Fitness* editions and the basic provisions have not changed. Visit our website for examination. Now that 529 plans have become more exposed and have track records, investors have experienced mixed results. With over 80 different 529 plans available, not all are created equal. Some states have low expenses and decent returns; many others do not. Comparison shopping is a must for 529 plans: avoid high commissioned, broker sold plans and carefully review past returns. Stick with no-load fund managers such as Vanguard and T. Rowe Price. Also, the Indiana state 529 Plan appears to be failing, so we suggest you avoid it. We've found Utah and Iowa having 2 of the best plans currently available. If you feel, your 529 plan is a disappointment; transfers between state plans are allowable. Savingforcollege.com is an excellent source for 529-education and plan comparison. Inquire about their use of aged based portfolio management. Also, up to \$55,000 can be deposited per child without gift tax consequences as long as no other gifts are made in the next five years to that child.

Coverdell Education Savings Account

Previously known as Education IRA's, these vehicles allow \$2,000 annual contributions but have income limitations (\$220,000 joint AGI, \$110,000 single AGI) for allowable contributions. These are good education saving vehicles given they allow self-directed investments to grow tax-free but the low annual contribution limit necessitates addition savings. Better open this type of account while in the delivery room.

UGMA/UTMA Custodial Account

Custodial accounts have been replaced by 529 plans and Coverdell accounts as the education saving vehicle of choice. For good reason: the tax benefits are minimal and funds are legally the child's at age 18 or 21 to spend as he/she pleases. We are often asked by parents who have both 529 plans and UGMA accounts which should be spent down first for education expenses. We usually recommend spending the 529 plan first because those monies are to be used specifically for education; the custodial monies can be spent on anything. On the other hand, if you're now worried how junior may spend his/her UGMA account, you could use those funds first to ensure they are put to the intended use.

Scholarships and Awards

Assuming your child isn't the next Mia Hamm or Tiger Woods, athletic scholarships might be out. Don't despair; there are plenty of relatively untapped resources for financial help. On the web, check out www.fastweb.com, and www.wiredscholar.com.² These sites are free and will provide a starting point to screening for financial awards. One caveat; stray from any company trying to charge a fee for their services or making any type of wild guarantee. Any reputable company should not charge for their services.

College funding is a serious financial concern for most parents. If higher education costs continue to rise at 10-12%, don't expect market returns to keep pace. The best advice we can give is to begin saving early and often. Encourage grandparents to gift seed money – even for yet-to-be-born children (529 plans allow this). And get to know your school's guidance counselor – they can sometimes prove to be the most valuable resource of all. If all else fails, explore student loans in the child's name. He/she can build a credit history and this strategy may provide clarity when the inevitable conflict between visiting the library or the pub occurs.

Fiscal Fitness is a publication of Houlihan Asset Management, LLC for the benefit of its clients and friends.
Houlihan Asset Management. Practical Advice. Prudent Investments. Copyright 2005

¹ Savingforcollege.com

² Collegebound.net