High School Seniors Eagerly Await College Acceptance Letters

By Steve Wightman, CFP

Shhhrrr. Hear that? Listen. Still can't quite make it out? There! Do you hear it? It's the sound of anticipation tinged with anxiety. College applications are in. Now is the hour for high school seniors to wait, and wait, to learn if they've been accepted into the college of their choice. By May, most college-bound graduating seniors will know where they are heading in September.

Along with the acceptance letter, parents may gasp when they see how little financial aid they qualify for and how high college costs really are. Realizing a four-year cost in the six-digit range, parents often scramble to see that they just haven't adequately prepared for this shocking sum. Only 10% American parents say they already have enough money saved for their children's higher education, according to AEGON Institutional Markets. One-third haven't even started saving for college.

Consider some facts:

- College costs are rising at 3 - 4 times the rate of inflation.
- 92% of students in your area will need financial aid.
- 100% of parents will need financial planning strategies. Today 4 years at a public university costs about $40,000, and a private university is about $75,000.
- Statistics show that in 15 years the annual cost of a public university will be $45,000, and a private university will top $80,000 at an Ivy League school.

Do parents know how they are going to pay the bill? With annual costs passing $40,000 for some private colleges, parents who were close to or who have succeeded in paying off their home mortgages often find themselves looking to their only sizable stable asset to fund what is often only the first wave of a financial tsunami. This may be complicate the situation by forcing the parents to pay high mortgage rate, squeeze their emergency savings, and push them deeper into debt and perhaps disqualify their child from any possible financial aid. Worse, it may force the family to take immediate interest-bearing loans with no tax deductions. Soon their child's euphoria may give way to an expression of angst on the faces of parents - especially parents with multiple children in the college lining up for college.

When it comes to saving for college, let's face it, most of us feel helpless. Nearly 75% people surveyed say they only know some or a very little of what's necessary to make wise investment choices. Moreover, about one in five worry about the taxes we will have to pay on the money they'd save; another one fifth worry that their savings will be useless if their children do not attend college. Asked where they turn for financial advice, only one in three say they consult a financial planner. Most rely on friends or relatives where the results are predictable as facial expressions upon reading the acceptance letter.

How Can You Save for College?

Although college savings (529) plans are but one of a host of strategies you may use to plan for higher education, they do solve a need for many people and should be considered as part of a college planning strategy. It is wise to review all planning strategies when considering education funding. Some may be taxed higher than others, some may trigger loss of financial aid and some will result in loss of control. The following is a brief summary of the major advantages of College Savings Plans:

1.) Earnings are exempt from federal income taxes if they are used for qualified higher education expenses.

2.) Accounts are transferable to other family members of the beneficiary-gift tax-free. This may be a significant advantage for families with potentially high income and estate tax liabilities.

3.) Virtually anyone can contribute to one of these accounts regardless of their income level.

4.) Donors can contribute $200,000 or more to one of these plans in a single year (subject to the plan's donor limits). Gift tax rules still apply. However, section 529 of the Federal Tax Code allows tax-free gifting made though a special gift tax provision. It permits a donor to consolidate up to five years of gifts (i.e., $55,000 per individual, $110,000 per couple) for the year of 2002 to each beneficiary through a special election made on the donor's gift tax return. Contributions in excess of this amount will be counted against your estate tax exclusion amount, or one million for 2002.

5.) The donor retains control over the assets even if the assets are not used for higher education expenses.

How does a Coverdell (Education) IRA work?

The Education IRA allows contributions of up to $2,000 per year per child who is under age 18 to pay costs of that child's higher education. The earnings accumulate in the account on a tax-deferred basis, and can be withdrawn tax-free if used to pay expenses such as tuition, fees, books, equipment and basic room and board. Eligibility is dependent upon income level. In 2002, the income cap for single taxpayers will be $110,000 and for married couples, $220,000.

Ahhh, the sound of millions of acceptance letters opening followed by "oh God, where will we get the money?" will soon resonate in homes across town and across America. It's never too late to take action. The worst thing to do is nothing at all. The best is to seek expert advice and the sooner the better. With just a little planning and the help of an expert, even with the acceptance letter in hand, families save thousands. Or, you can do like most do, consult with a family member and then pay the bills.

Where To Look for More Information on College Savings Plans?

For questions, email to AskSteve@Secure-Plan.com or visit one of the following informative websites:

www.Secure-plan.com
www.savingforcollege.com

Steven Wightman, CFP is a life advisor specializing in money. He is a member of National Association of Professional Advisors, www.NAPFA.org and the Financial Planning Association, www.fpanet.org. He is pictured on the Cover of Investment Advisor Magazine, March 2002.