

Take A \$40,000 Tax Scholarship Per Child

By Steve Wightman, CFP

College costs are now rising at 3 - 4 times the rate of inflation. 92% of students will need financial aid, mostly in the form of loans. 100% of parents will need financial planning strategies. What to do? First, decide whether you can afford a public or private college. Statistics show that in 15 years the annual tuition and board at a public university will be about \$38,000, and a private university may top \$80,000. Pick your goal and divide by the number of years remaining for your child to reach age 18. For example, for a newborn attending a 4-year public or a 4-year private, you would need to save \$334 and \$724 after taxes respectively. Can you afford to save that much every month?

Better: Pay children over age 6 for household chores or through your family business up to the annual limit of IRA contributions, \$3,000 for 2002 increasing to \$5,000 in 2008. Your children open IRA accounts and contribute the lesser of the limit or 100% of what you pay them in to the income tax limit in a Roth and the rest in a deductible, traditional IRA until they reach age 14 and 100% in a Roth IRA thereafter.

Why? 2002, earnings are tax-free up to \$4700 per child over age 13 and \$1500 if under age 14 and contributions used to pay for college tuition are not taxable. (Plan your Roth to be at least 5 years old to qualify for tax-free tuition payments). Supplement with a Section 529 College Savings Plan for toddler years. Tip; several states offer a 529 plan income tax-deduction. If you follow this plan for 22 years your total college costs would be as low as \$40,000 per child. Starting with just \$3000 with a newborn and \$5000 annually, a modest 7.5% average investment return could leave your child with \$275,321. You could get up to \$80,000 in federal and state tax

deductions and up to a \$40,000 tax savings exclusive of 529 plan deductions. Planned well, these contributions, plus earnings could provide all tax-free dollars to pay for an Ivy League degree. Dollars not used for college may also fund a wonderful retirement - an ivy legacy for your kids and theirs.

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 has published articles on the subject of planning for retirement, investments, estates and education. He has been a Certified Financial Planner™ licensee since 1995, practicing fee-only comprehensive planning with Wightman Financial Network, LLC of Lexington, Massachusetts.