Tracking #623080

Meet the Education Challenge: Planning for Tomorrow's Tuition Costs

Many parents dream of the day their child strides to the stage to receive a college diploma. On the other hand, many parents dread the day that college tuition bills arrive. Despite steep tuition costs, however, a college education may be a sound investment that's within the reach of many families. All it takes is a degree of planning.

It Starts With a Strategy
On average, tuition costs have been increasing between 4% and 6% annually in recent years. And consider this: Four years at a public college or university for today's newborns could tip the scales at greater than $100,000.*

That's why you may want to begin by developing an asset allocation — the mix of investments in your portfolio — based on the length of time you have until your child enrolls. The more time you have, the more you may want to rely on stock investments to reach your goals. Stock investments, while generally subject to more short-term market volatility than other investments, may offer the potential for higher long-term returns. As tuition bills appear on the horizon, you may want to shift your asset allocation toward potentially less risky investments, such as bond and money market investments.

Take This into Account Too
In addition, consider the type of account you use to invest for a child's education. A Coverdell Education Savings Account, for example, lets you contribute up to $2,000 per year, and your withdrawals may be tax free if they are used to pay qualified college expenses.

Another avenue you may want to consider is a custodial account. The Uniform Gifts to Minors Act (UGMA) or Uniform Transfers to Minors Act (UTMA) allows you to open an account in your child's name and potentially save on taxes. If your child is under age 18, the first $900 of earnings may be free from federal taxes, and the second $900 may be taxed at the child's rate, which could be lower than yours. Be careful though: Use of a custodial account could affect your child's financial aid eligibility.

Finally, don't overlook tax incentives and financial aid. The HOPE Credit and the Lifetime Learning Credit, two relatively new federal tax credits, can help offset qualified education expenses. Also, tens of billions of dollars are available in financial aid in the form of loans, scholarships, and grants from government and institutional sources. For more information on how to meet the education challenge, your qualified financial professional today.

**Sources: Standard & Poor's; The College Board (October 2008).*

General risks inherent to investments in stocks include the fluctuation of market prices and dividend, loss of principal, market price at sell may be more or less than initial cost and potential illiquidity of the investment in a falling market.

Bonds are subject to market and interest rate risk if sold prior to maturity. Selling bonds prior to maturity may make the actual yield differ from their advertised yield and may involve a loss or gain. Bond values will decline as interest rates rise and are subject to availability and change in price.