

College fund saving plan can be as easy as 5-2-9

By SUZANNE KENNEDY

Search online for “how to save for college” and the entire first page of your search results will come back with information on 529 plans. Somewhere farther down in your search, you might see Educational IRAs and life insurance plans like the one from Gerber.

The benefits of a 529 plan make a long list. It's easy: contributions are automatic once you set up the account. The earnings are automatically reinvested. No additional work is required on your part. You can use the money at any accredited school, in any state, and even in

foreign countries, as long as they have a student aid program. The school can be academic or vocational so when little Susie decides that studying cooking in Paris is her thing you're covered. As long as the money is used for education, it is tax-free. That includes various items that are necessary for education, like books, computers, some room and board costs, and even Internet access.

Thirty-three states offer these 529 plans and you don't have to live in the state in order to get one of their plans. Just because you live in Oregon doesn't mean that you can only purchase an Oregon plan. You can shop around and see which one you like best. There are a couple of websites that compare the details and ratings of each plan. Anyone can send contributions, so when Grandma asks what your son needs for his birthday, you have the

perfect answer.

There are no application fees, no maintenance fees, and no sales fees. You can start one for as little as \$25 and contribute monthly as much or as little as you'd like



(states may differ on minimum amounts). Many states even offer a tax deduction for your contributions.

If your child decides not to go to school that money can be used by another relative – even you. In some cases, if perchance your child receives a full ride to a university (hey, we can dream, right?), that money can be removed without any tax penalties as well. Or, if your child doesn't spend it all, another relative can step in and use it.

As of last year's federal tax rewrite, the money can also be used for educational K-12 expenses for private schools. The major benefit here is the tax break, but investing money one month and taking it out the next doesn't take full advantage of the idea of letting your investment grow, and it certainly won't help you save for college. So it depends what your financial goals

really are.

Educational IRAs are another option. These are similar to 529s in that the funds have to be used for educational purposes or they will be taxed. There are a few

differences. Educational IRAs, like the Coverdell ESA (educational savings account), have an age limit and a maximum yearly contribution of \$2,000. This plan also allows you to self-direct your investments whereas a 529 does not, but IRA contributions are not tax deductible.

The third popular option is a life insurance policy like the Gerber Life College Plan. It's a life insurance policy which matures at 10 or 20 years (your choice) that can be used for college ... or anything else. It's your money and there are no restrictions on its use. The drawback is that payouts are not tax-free and your contributions are not tax deductible.

It's never too late or too little. Every bit you put away now is



Education

money that won't need to be borrowed with interest. If you are starting later, set a realistic goal like saving enough to pay for a year's worth of textbooks or a meal plan. Don't forget, you don't have to stop saving when they're freshman. You can continue contributing throughout their time in school. In addition, 23 states participate in a matching grant program similar to a company matching your 401K contributions. States differ in their programs, which is another great reason to shop around.

Experts say the most important rule to saving for college is consistency. Don't leave it up to your memory to contribute each month – make the deductions automatic. You'll save more than you think you can and have one less headache when the time for higher education rolls around.

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