

September 4, 2008

Dear Friends,

If you are a parent, you have likely either experienced firsthand the escalating costs of higher education, or are faced with the daunting task of funding a child's college education at some point in the not too distant future.

With college tuition rising at an annual rate of 8% per year, tuition costs will double every 9 years. Even for the least expensive state colleges, current tuition costs are around \$5,000 annually. For a child born today, that figure will likely be \$20,000 when they are ready to apply for college in 2026. Should your child have higher aspirations and want to attend a more prestigious university like Harvard or Stanford (2008-2009 tuition for each is about \$36,000) it's going to cost in the neighborhood of \$144,000 per year, just for tuition and fees. While we can hope that our children are able to secure financial aid in some form, the importance of planning and saving for their education becomes quite clear.

All 50 states now have 529 college savings plans. A 529 plan is a savings vehicle that allows parents or guardians to establish an account for future college expenses. Unlike a *Coverdell Education Savings Account* (formerly known as an Education IRA), the account is in your name and you have complete control of how the savings are used for the life of the account.

Advantages

Contributions are not deductible on federal tax returns, however many states do allow a state tax deduction if you sign up for your own state's 529 plan (\$4,000 for a married couple filing jointly in Oregon, \$8,000 for a married couple filing jointly in Idaho).

- Earnings grow tax free and withdrawals that are used for college expenses are free from federal income taxes.
- The maximum contribution, which differs from state to state, can be as much as \$235,000.
- Assets in 529 plans don't have a major impact on financial aid. Savings are treated as a parental asset, of which only 5.6% is considered available to cover college costs each year.
- In most states, the beneficiary can be changed. If the beneficiary were to not attend college for any reason, the owner of the account could use it for the next child, and so on. It can even be used for an extended family member, such as a niece or a nephew.

Disadvantages

- If the assets are not used for college expenses, the gains are taxed at the marginal tax rate, and an additional 10% penalty is paid.

- Investment options can be limited. This varies from state to state and is something you'll want to look at before participating in the plan. You can open a 529 account in any state; a person who lives in Oregon, can open a 529 account with the state of California, and use the funds to pay for their child to attend College in Nebraska. While this allows many choices, it is usually recommended to open the account in the state of residence to take advantage of any state tax deductions that are available.

The 529 plan can be a good way to grow money, tax deferred, to pay for your child's/children's college education. Be sure to thoroughly understand the terms of the plan and its investment options before getting started. If you have questions regarding 529 plans, or the college savings process, we would be happy to discuss it with you further.

References:

1. U.S. News & World Report
2. www.collegesavings.org
3. www.Sensibleinvestor.com
4. Ideal – Idaho College Savings Program
5. www.Oregoncollegesavings.com