

The college funding nightmare

College costs needn't be a cause for concern if you plan properly.

Is thinking about how to pay for your children's college education keeping you up at night? The situation is literally a nightmare for most parents. Tuition increases are exceeding 10 percent in most states. College costs are rising faster than any other major sector of the economy except health care. Most state governments are facing their worst budget crises in 60 years, meaning less money for education. The country's 1,600-plus private colleges are being stung by falling endowments and a student base looking for more financial aid. Is there anything you can do?

First of all, don't panic. Develop a plan based on your family's situation, including family wealth, the child's age, family assets, creditor protection and flexibility. The following is a guideline around which to frame your plan.

Project education costs

The first issue to decide on is public vs. private schools. The chart at the right gives a snapshot of how education costs are expected to rise. Web sites offering similar tools include www.moneycentral.msn.com and www.cigna.com. Your projection should include tuition hikes of 6 percent to 15 percent depending on what university you're considering.

Consider various funding vehicles

Outright gifts to your children or grandchildren under the Uniform Gifts to Minors Act

- Trusts
- Section 529 Plans
- IRA withdrawals
- Coverdell educational savings accounts
- Savings bonds
- Hope and lifetime learning credits
- Scholarships and other financial aid
- Loans

All of the above have a different set of market, tax, control and creditor risks that



Your child's age today	Cost 4 years at a public college	Cost of 4 years at a private college
18	\$44,700	\$94,500
15	\$53,300	\$112,400
12	\$63,500	\$134,000
9	\$75,600	\$159,600
6	\$90,000	\$189,900
3	\$107,200	\$226,200
Newborn	\$127,700	\$269,500

need to be considered before choosing the right vehicle for you and your family.

Tax-related planning

Income shifting to children over 14 years old can also make sense. The idea is to gift income-producing property to your children or grandchildren so that cash accumulated for education can be taxed at their rate as opposed to the parents'. There are a number of issues with gift transfers, control over assets, and tax rules that should be addressed prior to making any transfers.

How I advise clients

In working with our clients, we are recommending maximizing contributions into Ohio and non-Ohio 529 Plans as well as saving through mutual funds and other vehicles until children reach age 14. At that point when children become taxed at their own rate, the focus becomes trying to shift income to the children, so that more after-

tax dollars can be accumulated.

Follow-up

Once you've committed to a plan, continue to monitor your progress. Investment gains and losses as well as a number of other issues connected to the financial status of your family may dictate changes.

The important thing to remember is start saving early, save often and be aggressive in planning for college expenses when your children are young.

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