guide to saving for college

Not your parents' college cost

You have a lot of financial priorities: preparing for retirement, paying off debt and saving for emergencies are just a few. But there is at least one other priority to consider adding to the list: college.

No, not paying off your own student loans. That would be included in paying off debt. The college priority is all about your kids' futures. Have you decided if you will be paying for their college education? Whether your kid is still in the womb or 15 years old, saving for college is an important financial element to consider. And no, saving for college won't be easy, but this guide is here to help.

Your kid will be in college before you know it. Work through these five steps to make sure you are on track to be prepared to release your little bird from the nest:

- 1. WHERE DO YOU STAND ON THE "WHO PAYS FOR COLLEGE" ISSUE?
- 2. DETERMINE WHAT SCHOOL THEY WILL ATTEND.
- 3. WHERE WILL THE MONEY COME FROM?
- 4. CHOOSE WHERE YOU WILL SAVE.
- 5. DON'T NEGLECT OTHER FINANCIAL PRIORITIES.

1. Where do you stand on the "who pays for college" issue?

Think of it as a spectrum: on one end there is the parent who will pay for absolutely every cost associated with school as well as provide extra money for whatever their kid deems necessary, and on the other end is the parent who essentially says "good luck!" to their kid when they graduate high school.

The majority of parents make a lot of excuses about saving for college, mostly because they just don't want to make the sacrifices necessary to save $400 a month for 18 years. What you have to determine is whether you are the type of parent who will give their kid what they want now or what they need later?

Determining your priorities will help you make this decision. Most parents agree education is extremely important, but their actual financial priorities don't reflect this. If your cell phone bill is more expensive than the amount you are saving for college each month, your priorities are out of whack.

The cost of college will continue to be a major problem for the next generation, aka your children. That doesn't exactly mean you have an obligation to pay for 100 percent of their schooling. It just means a real decision needs to be made. If your child has to get student loans to fund college, then fine. But don't let student loans be the result based on your laziness or unwillingness to put together your savings strategy. You don't HAVE TO pay for college, but a plan is necessary.

2. Determine what school they will attend

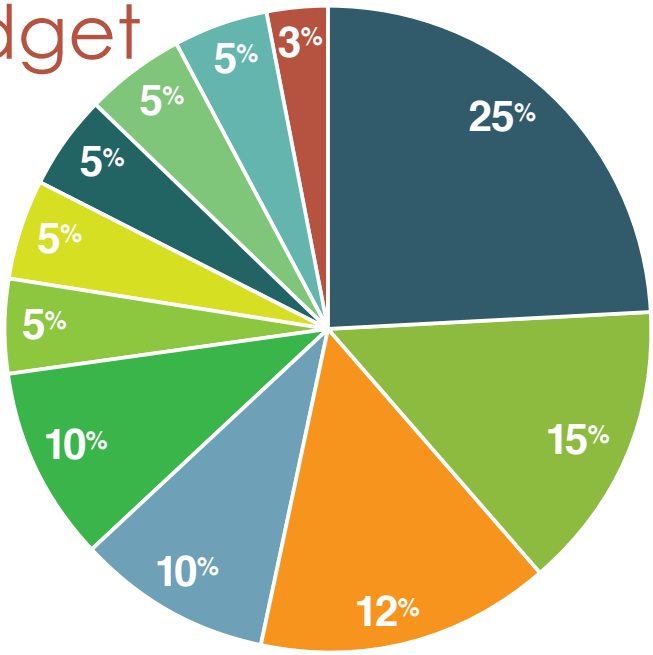
What, your 2-year-old hasn't declared a major yet?

Okay, so the actual school your kid will attend will remain a mystery until they are seniors in high school, but until then, choose a school to base your savings off of. Ivy League or a tech school? State or private? Determining the type of school will help you determine how much you should save. By viewing their current tuition, applying inflation and using the amount of time until your child goes to school, you can determine the estimated amount of money needed to fund tuition. Estimated, because there are a lot of factors that will play into the actual cost of college in the future. Choosing a college and basing your savings on that number is a great jumping off point for college savings.

In researching the cost of college, you'll find that 50 percent of the cost of college is often not for college. Confused? Join the club. Dorm living, a dining plan and books will account for major chunks of the overall cost of school. Parsing out the costs of college may help you determine how much you are willing to finance. Financing four years' worth of cafeteria lunch? Not so appealing.

ideal budget

25% Housing
15% Transportation
12% Groceries/Dining
10% Savings
10% Utilities & Phone
5% Charity
5% Entertainment
5% Medical
5% Holidays/Gifts
5% Clothing
3% Misc



3. Where will the money come from?

Budgeting is your friend and should be your guide in pursuing all your financial dreams.

Can you spot what's missing? Saving for college. Why is it missing? Because saving for college is extra, just like saving for vacation or an engagement ring. You have two options: 1) save for college first or 2) save for college last.

1. Saving for college first means treating it like retirement savings. Your retirement savings likely comes out of your paycheck, so you never even see the money enter your bank account. Therefore, it doesn't need a spot on your budget. Mimic this model by scheduling a transfer to your college savings account on the day you receive your paycheck. The money will be out of your account before you can say boo. Your budgeting percentages will be derived from what take-home pay remains.
2. Saving for college last means crossing your fingers and hoping at the end of the month you've stayed on budget and left enough to make a contribution to your college savings fund.

Option #1 is the logical choice. Don't leave college saving for last. Make it a first priority by avoiding the temptation to spend the money altogether.

4. Choose where you will save

There are several ways to save for college, but choosing the right one can mean the difference between needing student loans and avoiding student loans. Your method for saving should allow you to defer taxes.

This means you don't have to pay taxes on your investment growth. The most popular college savings vehicle is the 529 Plan. This plan allows you to invest your money into a tax-deferred education fund. The money can then be used for college expenses. But here is what makes them VERY attractive: many states will give you a tax credit for investing in one. This basically means you will get a tax refund for a portion of your deposit. For instance, in Indiana, by depositing money into the College Choice Plan, you are eligible for a 20 percent tax credit on your deposits up to $5,000. This means if you deposit $5,000, then you will receive a $1,000 tax credit. Therefore, a $5,000 deposit can become a $6,000 deposit if you deposit the $1,000 tax credit back into the plan.

5. Don't neglect other financial priorities

"You can finance college, but you can't finance retirement."
– a very wise man

Financing college isn't recommended, but neither is neglecting other financial priorities. Unfortunately, you have to do it all. Your financial priorities include saving for college, retirement, an emergency fund and a vacation, as well as paying off debt and basically anything else that costs money.

It is not impossible, but it will take work.

Saving for college, like any other type of savings, is a habit that takes some time to develop. Begin by saving $25 or $50 a month while paying off debt. Once you are free of consumer debt, increase your savings amount to the necessary level.

Saving for college takes double motivation: the motivation to start saving and the motivation to keep it up. Feeling unmotivated to save?

Try employing guilt. Think of your little child and how you want the best for them. Use this emotion to fuel your discipline. This almost always works.

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