Invest Early — and Wisely — for College

School is back in session. If you have school-age children, you're probably busy getting them acclimated to another year of hitting the books. But the school years go by quickly, so it won't be long before your kids are ready to head off to college. Will you be financially prepared to help them?

It's certainly a challenge, especially given the rising costs of higher education. Consider these figures from the College Board: For the 2011–2012 school year, the average cost (including tuition, fees, room and board) was $17,131 per year for an in-state student attending a public, four-year college or university. For a student attending a private four-year school, the comparable average cost was $38,589 annually. And these numbers are likely to increase in the years ahead.

So what can you do to help meet the high costs of higher education? For starters, you need to save and invest — *early and often*. And you'll also want to choose investments that are particularly well suited for college. Here are a few suggestions:

• *529 plan* — When you invest in a 529 plan, all withdrawals will be free from federal income taxes, as long as the money is used for a qualified college expense for your child, or even your grandchild. (However, non-qualified withdrawals may be subject to federal, state and penalty taxes.) Contribution limits are quite high, so in all likelihood, you'll be able to put as much as you want into a 529 plan — although you generally can't exceed the annual gift tax exclusion, which is $13,000 per beneficiary in 2012. Furthermore, if you participate in your own state's 529 plan, your contributions may be tax deductible on your state taxes.

• *Coverdell Education Savings Account* — Depending on your income level, you can contribute up to $2,000 annually to a Coverdell Education Savings Account (ESA) in 2012. Your Coverdell earnings and withdrawals will be tax-free, provided you use the money for qualified education expenses. (Any non-education withdrawals from a Coverdell ESA may be subject to a 10% penalty.) You can place Coverdell ESA contributions into virtually any investment you choose —stocks, bonds, certificates of deposit, etc.

• *Zero coupon bonds* — A zero coupon bond is priced at a discount to its principal or face value. You receive the principal value when the bond matures. So you could purchase a zero coupon bond that matures in the year your child is ready to go to college. Although you won't receive regular interest payments throughout the life of the zero coupon bond, you'll still be liable for the taxes on this interest. Therefore, consult with your tax advisor before purchasing a zero coupon bond.

These investments have proven popular among many parents and grandparents. However, you'll need to consult with your financial advisor to determine which college-savings vehicles are appropriate for your needs. But don't wait too long — because before you know it, today's grade-schoolers will be packing for their college dorms.

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2 – Sept. 10, 2012
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