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## Parents forgo college savings due to tough economy, job losses

By Mark Sullivan, Special to The Commercial Appeal

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With unemployment at 25-year highs and a "less worse" economy still squeezing consumers, families are struggling to save for their children's college costs.

In fact, 47 percent of parents are saving less or aren't saving at all because of job losses, the tough economy, market slides and the need to cut household costs, according to a recent Gallup survey by Sallie Mae.

But despite the hard times, local financial planners emphasize the importance of saving for college -- even in small amounts.

"People are cutting their expenses just to survive and some have stopped saving for their children's college tuition," said Chirag Chauhan, partner and director of financial services at The Barnett Group. "However, my advice is saving something is always better than saving nothing."

The challenge is daunting: saving for retirement while also putting money back for your child's college education.

"If clients are sending their children to private high schools and funding those costs out of cash flow, those costs are very comparable to a public college, so it is often not as pressing of a need," said Mark Sorgenfrei Jr., a wealth strategist with Waddell & Associates. "However, it is still prudent to save regardless of the situation."

The average annual cost of a four-year public college is more than \$18,000; for private, it is more than \$37,000, Sorgenfrei said.

College costs tend to increase 5 percent to 8 percent per year, or about twice the rate of inflation.

"With most investment companies and the 529 market plans, you can save as little as \$25 a month," Chauhan said. "You don't have to save a bunch of money to get started."

"A lot of people can find \$25 a month by cutting out a meal at a restaurant or one day of entertainment. With costs soaring the way they are, everyone should make saving for college a priority today."

Frank SanPietro, a certified financial planner and managing director of Humboldt and Frost Wealth Solutions, said people are crunched from all sides and are being forced to make tough choices.

"The combination of people losing their jobs, difficult markets and the price of education soaring have made this time the worst I've seen," SanPietro said. "The needs of today outweigh the wishes of tomorrow for many people.

"However, it is now time to get back into the game. Saving smaller amounts now for college is better than nothing."

SanPietro also suggests getting children involved in their own college education.

"Make it a priority that they save," he said. "Take money from their job and put into the college fund. It will make them appreciate the sacrifices being made by the family."

Here are four popular ways to save for a college education:

#### Coverdell education savings account

Federal tax treatment is similar to a Roth IRA; contributions are made after-tax, but all future withdrawals (including earnings), assuming they are used for qualified education expenses, are tax-free.

Funds can be used for college and graduate school expenses, as well as elementary and secondary expenses. Maximum contribution of \$2,000 allowed per year.

Full contributions allowed only if your modified adjusted gross income is \$95,000 or less (single) and \$190,000 or less (married filing jointly).

#### 529 plans

Federal tax treatment is similar to Coverdell education savings account.

Funds can be used for college and possibly graduate school (not elementary or secondary education).

Most plans have lifetime contribution limits of more than \$300,000; however, donors need to coordinate their contributions with gift tax limits; donors may accelerate five years worth of gifts in the first year, as long as no other gifts are made to the beneficiary over the remaining five-year period.

The annual gift exclusion is \$13,000 so, in essence, one person could give \$65,000 to one beneficiary in a single year.

No income restriction on contributions, unlike Coverdell ESAs.

#### Custodial accounts

Tax consequences will apply in these accounts, although a portion of the money should be taxed at the child's lower rate.

The child will legally be entitled to the money at the age of majority, which is 21 in Tennessee.

#### Your own assets

Investments will be taxed at your own tax rate.

"If a person hasn't saved any money and their child is a one or two years away from college, I recommend a Coverdell ESA (if income restrictions don't apply) and 529 plans," Sorgenfrei said. "However, before contributing, make sure there are no penalties assessed for withdrawing the money after only a couple of years.

"In addition, you will probably want to invest the proceeds in a conservative fashion."

All financial planners agree that saving money for college is not easy, but the sooner you can start, the better.

"Most colleges also have financial aid and scholarships that should be fully investigated," SanPietro said. "And, families can always get student loans that can be paid back over time.

"When they earn that college degree and walk across the graduation stage, it will be worth the effort."



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