



Chirag Chauhan

Rising College Costs Call for Real Plans

ERIC SMITH | The Daily News

Amid these shaky economic times, saving money for an occasion 18 years in the future might not seem critical. But as college tuition rises annually, so does the need for parents – and perhaps those hoping to be parents someday – to plan financially for their children’s education.

One particular college savings plan that has grown in demand lately is the 529, providing an opportunity for parents to put money aside in a tax-deferred vehicle that, unlike other programs, doesn’t sacrifice ownership of the account.

The 529 plan has proven to be the right solution for many clients of Chirag Chauhan, partner and director of financial services for The Barnett Group of Memphis.

“They’re definitely gaining popularity because of the control issue – having control over the assets in addition to the tax benefits,” Chauhan said of 529s. “You’ve got a participant who owns the account for the beneficiary of said child. They have control over it, the funds grow tax deferred and when used for college they come out tax free.”

Tuition trending upward

Anything “tax free” might be especially attractive when faced with steep tuition bills. For the 2007-08 school year, private four-year tuition averages \$23,712 per year (up 6.3 percent from last year), and public four-year tuition averages \$6,185 per year (up 6.6 percent from last year), according to the College Board, a New York-based nonprofit association that promotes college attendance.

Compound those increases over the next 18 years and it’s easy to see the need for getting a jump on saving.

“The earlier you start, the more time you have for that growth,” Chauhan said. “College-cost inflation is about 6 to 8 percent, and the only place really where you get that 6 to 8 percent (return) is in the equity markets. While the kids are younger, most people can stand a little bit more risk within their portfolio. In order to get those above-average

rates of return, you've got to have some in the equity portion, and not having to pay taxes on that as it grows, helps that growth as well."

Jim Whitehead, a partner at Germantown-based Shoemaker Financial, agreed that the 529 plan is a viable option for many clients, especially with its tax-free earnings growth (if the funds are used for college), the retention of ownership and the fact that the funds remain in a separate account and don't commingle with other funds.

"It's not coming out of a retirement account, it's not coming out of the equity of the house, it's not going to be used for a new car," Whitehead said. "You can label it as 'this child's college.' I think they are a strong possibility for many people. Now there are more kids going to college than ever before, so it's a strong avenue of ways of saving, but it is not the only way."

Additional options

Some of those other avenues include cash-value life insurance or the standard savings or money market accounts, but the latter brings limits to the investment, including the taxing of capital gains and interest generated within the account.

"Ultimately, they have the control over the money, but there are no tax benefits, per se," Chauhan said.

Another is either the UTMA (Uniform Transfers to Minors Act) or UGMA (Uniform Gifts to Minors Act), a gifting plan for minors established in the 1980s. But taxation and loss of ownership come into play with that option.

"When they turn 18, which is the age of majority in most states, that money legally is theirs," Chauhan said. "It's an irrevocable gift from the custodian to the minor. If they want to spend the money and go to Jamaica and ride Harleys and do other things, so be it."

Of course, like the other college savings and investment plans, there is a downside to the 529s as well.

"The problem I find with 529s and college plans is sometimes, you can't find a real good diversification if you're sticking in \$50 a month," Whitehead said.

Early planning crucial

Still, the 529 does provide numerous benefits that should be discussed with a financial adviser. And no matter what the plan, what needs to be underscored is the importance of planning early for a child's education.

“Responsible people plan early, irresponsible people don’t,” Whitehead said. “If you’re saving for your kids’ education, they’re more likely (to be) able to go, or they’re more likely to go to certain colleges rather than other ones.”

Chauhan said he spends much of his time advising people in the “accumulation” stage of their lives, meaning the two most important factors are retirement and college education. The same principles apply for both.

“The one thing I do emphasize is the earlier the better, just like anything,” Chauhan said. “It’s an allocation of finite resources that are coming in, and it’s important to plan than estimate how much college is going to cost at a certain point in time and to do the things early on that will ensure that you can fund that when the time comes.”