

529 - an investment in your child's future

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It's one of the most important investments you'll ever make -- sending your child to college.

According to the College Board, the total average cost of a college education including room and board at a private school for the 2008-09 school year was \$34,132, which is 5.6 percent higher than the previous year.

For in-state students at a public college or university, the total average costs including tuition, fees and room and board were \$14,333, or 5.7 percent higher than the previous year.

With college costs soaring each year, how can parents ever save enough money?

One way for parents and even grandparents to save for their children's college education is a tax-deferred 529 plan, also called a Qualified Tuition Plan.

With a 529 plan, all funds grow free of federal and state income tax.

Another benefit is when a student enters college, the withdrawals are exempt from federal taxes when used for qualified educational expenses.

There are two types of 529 plans: prepaid and savings plans. With a prepaid plan, you enter into a contract to save a specified amount to lock in the costs at a specific college at today's prices.

In addition, prepaid accounts may transfer to out-of-state schools under certain conditions.

With the savings plan, you can start small and save at your own pace. However, because your contributions are not part of a contract, they don't lock in today's college prices.

Savings accounts can, however, cover any qualified higher education expenses including books, supplies and room and board. Money can be used at accredited colleges throughout the country and there are also many different investment options available that you can choose from.

The Illinois College Savings Program has some additional benefits for Illinois residents. Depending on individual circumstances, qualified 529 contributions can be deducted in computing Illinois taxable income, up to a maximum of \$10,000 per year for an individual taxpayer.

Marty Rossman, director of financial aid at North Central College, said that during the 2008-09 school year, about 40 percent of the student population was using debt to cover costs.

"If you asked a director at any other four-year college, they would give you very similar, if not higher, percentages," he said. "With that said, do I think it's worth it? Honestly, I don't believe there's a better or more important investment than a college education."

Tom McGee, managing director of Harris Private Bank in Naperville, is preparing to send his oldest daughter off to college this fall. He may be reached at tom.mcgee@harrisbank.com or at 630-420-3580.