HOW MUCH WILL IT COST TO SEND MY CHILD TO COLLEGE?

Educating your children will probably be one of the biggest financial challenges you'll face in your lifetime. Today, the costs to attend an elite private college run nearly $40,000 a year, the average private school around $27,000, and public institutions around $13,000 according to figures from the College Board. In fact, over the past decade the cost of tuition and room and board has been rising twice as fast as the consumer price index (CPI). Experts predict that costs will continue to exceed the CPI.

If you want to send your children to an elite private school 10 years from now, the total four-year tab per child could surpass $250,000 if prices increase an average five percent a year. However, many fine private schools will likely cost only one-half to two-thirds of those figures, and many excellent public colleges or universities will cost one-third of that.

IT SOUNDS OUTRAGEOUSLY EXPENSIVE. HOW AM I GOING TO PAY FOR IT?

Don't be paralyzed by "tuition shock" headlines. You may be able to afford the college of your choice… if you start now to plan ahead. However, for most families paying for college, it will require more than simply dipping into the family savings account or writing a check out of current income. A CERTIFIED FINANCIAL PLANNER™ professional can help you maximize cash flow, establish a realistic savings strategy, and qualify for financial aid.

WHAT ABOUT ALL THE NEW EDUCATION TAX BREAKS?

Congress has passed several new education tax breaks such as a tuition tax deduction, new 529 savings plan rules and the Coverdell education savings account. Unfortunately, not everyone qualifies for these breaks because of their income levels. Also, some of these education tax breaks conflict with each other. A CFP® professional can help you sort out these tax rules and select the strategies that will work best for your needs.

CAN MY PLANNER CALCULATE THE COSTS?

Yes. Most CFP professionals have resource materials on the current costs of schools and worksheets for projecting four-year costs and the amount you will need to save each month to pay the bills. They can also make sure you don't underestimate the total cost of sending a child to college. It's more than just tuition and room and board. Families often overlook transportation, computers, laundry, books and those Friday night pizzas.

IS COLLEGE REALLY WORTH THE COST AND EFFORT?

Your child's college education is one of the best investments your family will ever make. On average, a person with a high school education earns only 60 percent of what a college-educated person earns over a lifetime.

WHEN SHOULD I START SAVING FOR COLLEGE?

The sooner, the better. Not only will you be able to put in more over time, but your savings will grow through compounding. Time is your ally. If your child is three years old and you begin saving $200 a month at an 8 percent return (before taxes), you'll have saved $69,670 by the time the child enters college. If you wait until the child is thirteen, you'll have to put away $940 a month to reach the same goal.

Whatever you can save, the important point is that you get into the savings habit. Start out at only $50 or $100 a month, if necessary. You can adjust upward as your circumstances allow. You can make the process easier if you have part of your monthly pay automatically deducted and put into an investment account. Also contribute extra income such as bonuses or tax refunds.

WHAT ABOUT FINANCIAL AID?

Financial aid is typically a package of low-interest loans, grants and work-study provided by government, the college, or private sources. Grants, given on a need or merit basis, are ideal since they are gifts the student does not have to repay. Federally supported work-study programs allow students to work at the educational institution, and the income does not affect the student's eligibility for other financial aid. In recent years, federally subsidized loans have become the predominate form of financial aid.

While federal and college aid is the most prevalent, don't overlook possible assistance from the state, your employer, private scholarships or the military.

HOW MUCH FINANCIAL AID CAN WE EXPECT TO RECEIVE?

This is a complex question. All colleges use a federal formula known as the "federal methodology" to determine the amount of money the parents and student are expected to contribute and the amount of federal aid for which they are eligible. The formula is based on four major factors: the parents' income, the parents' assets, the student's income and the student's assets. The family's expected contribution is subtracted from the total cost of the college, and, ideally, the remainder is covered by some form of financial aid.

However, private colleges also use an "institutional methodology" to determine the amount of institutional aid they might provide. This formula takes into account more factors than the federal methodology. And some states use their own methodology for determining the amount of state grants.

In theory, you may actually be able to send your child to a more expensive school than you thought if you can come up with the aid. The reason: Your cost is how much you pay after financial aid is subtracted from the price of the school.

If you have two or more children in college at the same time, your expected contribution under the formulas will remain roughly the same, so the total amount of financial aid will probably increase significantly for each student.

Be aware, however, that some aid programs may be under-funded when your child enrolls. Therefore, saving ahead of time for college remains your best option.

WOULDN'T IT BE EASIER TO JUST BORROW FOR COLLEGE?

Keep in mind that it costs much more to pay interest on borrowed funds during and after college than to earn compound growth on funds invested before college. The more you can minimize borrowing, the better, since borrowing can seriously hamper efforts to save for retirement or it can saddle the graduate with years of loan payments.

If you must borrow, your planner can help you select the best source for funds, such as home equity loans, state and federal student loans or commercial loans. Home equity loans have been especially popular because the interest is tax deductible, though interest on student loans is now deductible to a limited extent. In some cases, you can borrow from your 401(k) or other qualified pension plan, often at reasonable rates. However, you are borrowing against retirement funds. These loans must be repaid within five years or the unpaid portion could be subject to income tax and penalties if you haven't reached age 59 1/2.

HOW MUCH SHOULD I INVEST? AND WHERE?

You need to start with the projected costs of the school or type of school you want your child to attend. Your planner can then calculate how much you need to save each month and what investments will fit your entire financial picture.

Depending on the number of years you have to save, there are various investment strategies:

- Children under age 10—moderately aggressive vehicles such as growth mutual funds, bond funds and U.S. government bonds. However, as with any type of investment vehicle they are subject to market risk and consequently their value can fluctuate.
- Children age 10 to 16—more conservative growth-and-income funds and shorter-term bond funds.
- Children 17 and older—certificates of deposit, money markets or short-term bond funds to conserve principal.

Your CFP® professional also can discuss a wide array of other investment options depending on your time horizon, resources and risk tolerance.

WHAT ABOUT GOVERNMENT PROGRAMS?

The states and the federal government have created several options for saving for college.

US Savings Bonds. The interest earned is free of federal tax if the money is used to pay for qualified college expenses, and if your income isn't too high.

Coverdell education savings accounts. You can contribute up to $2,000 a year, and earnings are exempt from federal income tax as long as you use them for qualified education expenses. You can't open a Coverdell account, however, if your income is too high. In that situation, consider gifting the money to the student or the student's grandparents and have them open the account.

529 college savings plans. These popular state-sponsored plans operate similar to a mutual fund, generally with an outside investment firm making the investment decisions. As with mutual funds, investment returns are not guaranteed.

The major advantages are that earnings grow free of tax and withdrawals are free of federal tax at least through the year 2010 as long as the money is spent on qualified education expenses. Under most plans, as much as $200,000 or more can be invested. The plans have no income restrictions; the investors, not the student, maintain control of the account; and you can change beneficiaries.

State prepaid tuition plans. About half of the states offer this program, under which you can buy part or all of a state school's future tuition bill at today's prices. It's a good option for conservative investors or in the event that tuition costs increase dramatically. A coalition of private schools also now offers a prepaid tuition program.

SHOULD I SAVE MONEY IN MY NAME OR MY CHILD'S?

Transferring income-producing assets from parent to child no longer provides as much tax benefits as it once did. These are other drawbacks:

- By transferring assets, either directly or in the form of trusts or custodial accounts, you are giving control of those assets to your child.
- Assets in the child's name usually reduces the amount of aid for which the student is eligible.
- If you transfer funds to two children, you are giving up the flexibility to apportion funds should one student not need as much as the other.
- You also lose the flexibility of having that money available for family needs, such as emergency money should a breadwinner become disabled.

Nonetheless, for some families, shifting assets into the child's name can minimize taxes enough to make it beneficial. A CFP® professional can help you analyze the advantages and drawbacks.

WHAT DO I DO IF I DON'T HAVE MUCH TIME LEFT?

Many families don't start thinking about financing college education until their child is well into high school. The issue then shifts from a savings problem to a cash-flow problem. Most likely you will have to rely on a combination of increasing income, borrowing and getting financial aid. But don't overlook other options. For example, your child can work or grandparents can directly pay for a child's tuition free of gift tax.

WHY IS A CFP PROFESSIONAL QUALIFIED TO HELP ME?

Not everyone who calls themselves a financial planner is a CERTIFIED FINANCIAL PLANNER™ professional. To obtain the CFP certification, a person must study and demonstrate competency in six areas vital to comprehensive financial planning, including insurance, retirement, investments and estate planning by successfully completing the CFP™ Certification Examination. The emphasis of the educational program is the interrelationship of the financial areas and the need for an objective analysis of a client's circumstances and goals. The CFP professional must also meet educational, work experience and ethical standards to maintain the right to use the CFP mark.