

## SAVING FOR EDUCATION

For many of us, funding our children's education will be the greatest financial challenge we ever face, besides purchasing our own home. The costs of higher education continue to rise and the sooner you begin saving for it, the better off you will be. You will also have the luxury of choosing among a greater variety of investment and savings options.

### Options to Consider

#### Coverdell Education Savings Account (ESA)

Although you can withdraw funds penalty-free from your IRA to fund college expenses (earnings on withdrawals are taxed as income), it might be wise to consider setting up a Coverdell ESA (formerly Education IRA). Many individuals can put away \$2,000 every year for college savings that will earn tax-free earnings (like your retirement IRA) until time of withdrawal. Distributions used for qualified education expenses will not be subject to tax.

#### Fixed Annuities

Fixed annuities can provide tax-deferred earnings and virtually unlimited annual contributions, and may offer a good alternative for college funding in many cases. They are a more appropriate choice if you will be at least 59 1/2 when your child enters college.<sup>1</sup> Annuity values are not included in the federal formula for financial aid.

#### Life Insurance

Permanent policies, such as fixed or variable universal life, may develop cash value that can be withdrawn or borrowed against to help pay education costs. Loans, withdrawals, and performance will affect the policy value and net cash value and may affect the death benefit. Like annuities, life insurance cash values are excluded from the federal formula for financial aid.

#### Section 529: Qualified Tuition Programs (QTP)

These programs are sponsored by states and some education institutions and allow you to purchase tomorrow's tuition and qualified higher educational expenses at an agreed rate. The money invested will be available to pay college tuition or qualified education costs when your child enters college. Amounts used in payment of tuition or qualified higher education costs under state sponsored plans are not taxable and will not be taxable under institutional plans after 2003. These plans may require large up-front costs and may limit the colleges included in the plan.

#### Section 529: State Savings Plans

These plans are a variation of Qualified Tuition Plans. The main differences are that they can be offered only by states rather than private education institutions and can offer contributors a choice of investment options. Depending on the plan and investment option chosen, the investment return may not be guaranteed. The contributions plus the investment return can be used to pay tuition and qualified higher education costs when the beneficiary enters college.

#### Gifts

You may be able to build an education fund by annually transferring income or certain assets to your children, while reducing your own tax liability. Depending upon the age of your child and the amount and type of gift, it may be taxed at your child's rate instead of yours. Parents who are business owners have additional gifting opportunities that may be to their advantage, tax-wise. Refer to IRS regulations or consult with a qualified financial planning professional for more information.