



Posted on Tue, Aug. 30, 2011

Kat's Money Corner | College on our minds

By KAT

I think making September “College Savings Month” is brilliant timing.

Yes, it is way too late for anyone that has already headed to campus this year to be planning. That's the point: college is too expensive to start thinking about just weeks or even months in advance.

It takes true long-range planning to keep it from blowing up a budget. If you see college in your children's future – or in your own to boost your career – it's never too early to start planning and saving. In fact, having that plan is so important as a recent article found [here](#) showed adults with a college degree estimate they make an average of \$20,000 more a year because of that degree.

Note the two steps: “planning” and “saving.” You're far more likely to reach your goal if you have a plan – and enroll in one.

There are two main vehicles best suited for long-term college savings, and you should talk with a financial planner to determine which is best for your financial situation. A Roth IRA is a retirement savings account that you can also tap for education expenses, under certain conditions. A 529 Plan is a savings account designed specifically for college.

The Roth IRA option offers more flexibility, because you can use the money for retirement or college. But it's also a more complex undertaking, with significant tax penalties if you don't handle it right.

A Roth IRA differs from a Traditional IRA in that the money you contribute to a Roth is tax-paid, rather than the pre-tax income that goes into a Traditional IRA. For education purposes, the only money you can take out before retirement and use for college are those after-tax contributions, not the interest earnings that have accrued over time. If the money you take out for college exceeds the amount of your contributions, you will have to pay a 10 percent tax penalty on the overage. There are other rules and limitations, including specific rules on which education expenses are eligible. You can find a good detailed [summary here](#).

One of the biggest advantages of using the Roth option to pay for college is that unlike 529 plans, Roth IRAs are not considered to be an asset of either the student or the parent in determining eligibility for federal financial aid.

The 529 plans are state-sponsored, and both Missouri and Kansas offer plans, as do most other states. You are free to use any state's plan, not just the one for the state where you live.

One of the big advantages of 529s are special deals and incentives built into state income taxes to encourage residents to use the state's plan. Again, your own personal financial situation will weigh heavily on whether that makes the 529 a better deal for you than the Roth IRA. You can find information on all state plans [here](#).

It is also possible to divert credit-card rewards into the 529 plan. Check the terms and conditions carefully. These can be a great deal – as long as you're not paying more in interest charges and fees than you're gaining in savings.

Most 529s offer a choice between an investment savings plan and what is known as a “prepaid” plan, which locks in tuition costs at the time you make the investment. This usually applies only to state-supported schools attended by in-state residents, so again, check the details carefully. If you are dead-set on being a Jayhawk, Tiger or Wildcat family, this may be your best option. Otherwise, the flexibility and earnings potential of an

investment savings plan may well be the better choice. You can find a detailed summary of 529 options [here](#)

Finally, remember that the best way to save money is always to simply spend less. Consider starting your college career at one of the many fine community colleges in our area. The community college option is one of several primary recommendations of the Center for College Affordability and Productivity. Here's the [information](#).

Tuition costs are generally lower than most four-year schools, and the opportunity to live at home and save on room and board charges is another financial plus. Again, do your research, and make sure that the credits you earn will be transferable to the institution where you plan to complete your bachelor's degree.

So the moral of today's story is that college is expensive no matter how you slice it, but it's important in order to gain that solid education and get prepared for your long-term career. Outline your plan as soon as possible so you won't have as much stress when your student actually registers for that first class.

The Money Corner is posted on Dollars & Sense every Tuesday. Kat Hnatyshyn, when not blogging or caring for her newborn, is a manager with CommunityAmerica Credit Union.

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