

## SUPERCARGE COLLEGE SAVINGS

### **Start Now and Use a Tax Preferred Account to Maximize College Savings**

I was caught off guard recently when my wife informed me that kindergarten started for my son in only a couple of weeks. Time sure flies. Even though we enrolled him in public school, it isn't free. It required one shopping trip already with a few more to come before he is "ready". Turns out he needs a lot of things to go to kindergarten. I don't remember it being quite so involved, but then I was five and the joys of learning about recess overshadowed everything else.

What really scared me was how much it would take to help him pay for college. My wife and I talk about this a lot. Do we have a duty to pay for our children's college education when the time comes? Neither she, nor I, had parents that paid any part of our tuition. We got through school the old-fashioned way. We got scholarships and loans and worked as much as we could. Yet I know many parents feel duty bound to pay for their children's college education. Interestingly, one of my roommate's dad paid for his tuition. The roommate finished his four year degree about six years after he started and after his dad said "enough is enough." He then went on to earn a masters degree at a private university that he paid for and completed with no delays.

If you do plan to help your children pay for college, watch out for these two common mistakes. First, don't make the mistake of waiting to start the saving. The clock started ticking the second your child was born. The longer your savings can grow, the bigger the impact you can make. Second, don't make the mistake of simply putting money in a taxable savings account or money market. By using tax preferred investment accounts, you can supercharge your college savings growth.

Here is a very brief introduction to three tax preferred investment savings strategies you should investigate further.

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First, consider a qualified tuition program. These programs are often referred to as Section 529 plans in reference to the section of the internal revenue code outlining the requirements and benefits. These types of accounts can take two forms. One form generally allows you to buy tuition credits for a child. This basically amounts to prepaying the costs of tuition. The other form allows you to contribute to an account set up to meet the child's future higher education expenses. This second account form gives you a little more flexibility regarding the types of investments for potentially higher growth.

The contributions to the 529 plan may also be deductible for state income tax purposes in certain circumstances. Even better, the growth on the accounts is tax free as are distributions when used to pay for qualified higher education expenses. There are additional rules regarding these accounts, but if you are saving for college, you should definitely consider whether a 529 plan makes sense.

The second tax preferred college savings method is Coverdell Education Savings Accounts. You are generally allowed to contribute \$2,000 per year per student to these accounts. Like a 529 plan, earnings grow on a tax-deferred basis and distributions are tax free if used for defined education costs. There are several differences between a Coverdell and a 529 plan. Under a 529 plan you can contribute more per student per year and you may qualify for a state income tax deduction. There are other differences as well, but a Coverdell is definitely worth consideration if you start early. Check it out to see if it fits your circumstances.

Lastly, consider Series EE U.S. savings bonds. Interest on Series EE U.S. Savings Bonds issued after 1989 to individuals 24 or above may be tax free if used in the year the bond is redeemed for qualified educational costs. However, the tax free exclusion of interest on these bonds is generally not available for households where income exceeds \$80,600 if single, and \$128,400 if married, although these amounts may increase. Thus, the tax advantage of this savings option may be a bit more limited. However, it may be right for you if you are a very conservative investor, or favor government securities.

There are many factors you should consider before choosing the most appropriate savings account, but don't wait. Decide now. Before you know it, time will run out and the decision as to how much you can help your children will be more difficult, and much more costly. A few hundred dollars worth of school supplies and clothes will quickly turn into many thousands of dollars for tuition, books, and housing before you know it. Give yourself a break. Use a tax preferred college savings vehicle now to give yourself the best opportunity to help your kids later.

This is intended for general interest and not as specific legal or accounting advice for anyone. You should consult your tax advisor to get more information.