

College Planning

An Age-Banded Approach to Saving for College

Regardless of your child's age, the best overall strategy for building a college fund is to invest a regular amount on a monthly basis, boosting your nest egg with the proceeds of bonuses, tax refunds, gifts, and inheritances along the way. While your savings plan should stay intact, you will need to adjust your focus and investment strategy as your child approaches college age.

From newborn to 5-years-old: time is on your side

With anywhere from 12 to 18 years before your child starts college, you have more than enough time to accept a higher level of risk and invest aggressively, aiming for maximum returns. Invest most of your college savings dollars (or at least as much as your tolerance for risk allows) in stocks or stock mutual funds. The stock market invariably has its ups and downs but, over the long term, stocks consistently have outperformed other investments.

Ages 6 To 9: stay the course

If your child is within the 6 to 9 age group and you're just starting to invest, you may not want to take the most aggressive approach. With a decade to go before your child reaches college age, you can still emphasize growth, but you may choose to moderate your risk somewhat by investing assets into less aggressive growth-and-income funds. If you've been saving regularly and already have a growing college fund, you can pretty much stay the course during this period.

Ages 10 To 13: get ready, get set

Continue to fund the college nest egg, but start to steer your portfolio toward a more conservative profile. You can accomplish this by directing more of your new contributions to bond funds and tamer stocks or equity-income funds that, because they look for stocks that pay high dividends, tend to ride market dips better. Start researching safer, less volatile investments where you can begin shifting your money over the next few years.

With fewer than five years to go: go for safety

You don't need to drastically alter your asset allocation on the day your child walks through the doors of high school, but you should start taking definitive steps to preserve the returns earned thus far. You'll still want some growth to help keep your portfolio ahead of inflation but, overall, your emphasis should be on capital conservation and income. By putting a plan in place for selling your stock holdings and buying less volatile investments, such as bonds, CDs, money market accounts, and Series EE Savings Bonds, you won't be faced with the need to sell in a down market to meet an impending college bill.

With two years to go: the moment of truth

Now is the time to consider your eligibility for financial aid. The first step is to calculate your expected family contribution. To improve your financial aid picture, consider moving money around to lower the income used in financial aid calculations. For example, when you sell stocks after January of your child's junior year in high school, the earnings are considered income on your financial aid form. When you sell those winners before the January cutoff date, the proceeds appear as assets and count for much less in the aid formula. Look for other ways to lower your income, perhaps by contributing to employer-sponsored flexible spending accounts, since income that is funneled into such accounts isn't included in financial aid calculations.

If it looks like you won't qualify for financial aid, consider federal and state loan programs that are not need based. Also, many colleges offer tuition installment plans that spread out payments and may make it easier if you need to pay part of your child's tuition expenses out of current income.

Work with a CPA

A CPA can be an invaluable resource in planning and executing a college savings plan. He or she can also provide advice on making the most of education tax credits, such as the HOPE and Lifetime Learning credits, which you may qualify for once you start writing those tuition checks.