

College Savings

What it is: Do you have a student in your home? When is a good time to talk about financing a college education – in high school or even middle school? How much is your student saving for college? How much do you have put away to help your child? Iowa Regents universities cost around \$17,000 a year for tuition, fees, room, board and other expenses – books, supplies, transportation and personal expenses. Iowa private colleges are in the neighborhood of \$35,000 annually.

College savings is one of the most effective ways to help your child succeed and saving for college became a little easier when Congress created “529 Plans.” [They are known by that name because their rules are outlined in Section 529 of the Internal Revenue Code.] These plans offer tax benefits for college savings.

How it works

Prepaid tuition plans allow parents, grandparents and others to prepay tuition at today’s tuition rates at eligible public and private colleges or universities, helping them manage future tuition costs. Each state creates its own 529 Plan; Iowa’s plan is called College Savings Iowa. It is administered by the State Treasurer’s office, which determines the general guidelines. Here are some of the details:

- You can start small. An account can be opened with a deposit as low as \$25.
- Earnings on the account accumulate tax-free. Withdrawals are completely tax-free (federal and state) if they are used for qualified post-secondary education expenses.
- Several investment options are available, at various levels of investment risk. They include some age-based investment tracks, which are invested more aggressively when the beneficiary is young, and are gradually shifted to more conservative investments as the beneficiary approaches college age.
- The beneficiary does not need to attend an Iowa college. Funds withdrawn from the account can be used tax-free to cover tuition, books, and room and board at any accredited institution.

Why it matters: Studies shows that children who have a savings account for college, are three times more likely to go to college, and four times more likely to graduate college—even if the account holds less than \$500.

Who should care? Student loans are available but they need to be repaid! Over 40 million Americans are paying back student loans and many college graduates say that if they had understood that their loans had to be paid back, they would have made different choices. Help your student understand what it means to repay college loans over the next 10, 20 or 30 years.

For more information

- College Saving Iowa 529 Plans
https://www.collegesavingsiowa.com/content/faqs_plandetails.html
- Consumer Financial Protection Bureau
<http://www.consumerfinance.gov/servicemembers/planning/>
- Iowa State University Extension and Outreach Money Blogs tips
<http://blogs.extension.iastate.edu/moneytips/>
- Iowa State University Extension and Outreach website at
www.extension.iastate.edu/humansciences/