

## Tips On Saving For A Child's Future College Education

(NAPSA)—The earlier families begin saving for their child's college education, the better.

For example, if a family saved \$50 each month beginning with the birth of their child and continued depositing \$50 over 18 years at a rate of return of 5 percent, compounded monthly and taxed at a marginal rate of 25 percent, they would have \$15,295 by the time the child reaches college age. If they increased their savings to \$200 a month, their earnings would grow to more than \$60,000, with nearly \$24,000 earned in interest alone.

"The more you save, the greater the down payment on your higher education," says Martha Holler, spokesperson for Sallie Mae, the nation's leading saving-and paying-for-college company. "And the greater the down payment, the less you will have to borrow."

There are a number of savings options available today to help families save for college. Best of all, each savings plan can be tailored to meet a family's individual financing goals and investment needs.

### 529 Plans

With a 529 plan, families place a select amount of money into a tax-deferred account to be used for higher education costs. Earnings on a 529 investment, including capital gains and dividend income, are continually reinvested tax free. When used to pay for qualified higher education expenses, assets can be withdrawn free from federal income tax, and in most cases, free from state income tax. Earnings on nonqualified withdrawals are subject to federal income tax and a 10 percent federal penalty tax, as well as state and local income taxes.

There are generally two types of 529 plans: prepaid and savings. Savings plans allow participants to use their 529 plan account assets to pay for tuition, certain room and board expenses, fees, books and supplies at most accredited postsecondary schools



in the United States. Prepaid tuition plans allow you to prepay for college credits based on today's current tuition rates, usually cover tuition and fees, and are typically offered for a specific pool of participating postsecondary schools.

### Reward Programs

There are reward programs that help families save money for college every time they shop online, purchase gas or make any number of everyday purchases. Upromise, the largest private source of college funding contributions in America, has helped 8 million members earn college savings rewards on everyday grocery and gas purchases, dining out and shopping online and at retail stores.

### Coverdell Education Savings Accounts

A Coverdell Education Savings Account (also known as an Education Savings Account, an ESA or Coverdell Account) is a tax-advantaged investment account designed to encourage savings for future college expenses. ESAs are set up similarly to Roth IRAs. However, an ESA is an investment vehicle targeted for education expenses rather than retirement. ESAs and IRAs both allow participants to make an annual nondeductible contribution to a specially designated investment trust account. The account itself grows free of federal income taxes.

"The bottom line is this: Saving early and consistently gives compound interest the time to work its magic," adds Holler, "and families will have a healthy start on paying for their child's future college education."