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## Saving for College

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A college degree is worth a million bucks. According to U.S. Census Bureau statistics, people with a bachelor's degree earn over 70 percent more on average than those with only a high school diploma. Over a lifetime, the gap in earning potential between a high school diploma and a B.A. (or higher) is more than \$1,000,000.

But - to get that degree it often takes money, and lots of it. According to the College Board's 2004-5 report, average annual private undergraduate college tuition is \$20,082. This is four times the average annual public university tuition of \$5,132. Over the last 10 years the tuition at public universities has risen 51% after adjusting for inflation, versus 36% for private colleges.

Saving for college can, and should, start early. The directors of the Joseph Financial Group long ago chose three different savings strategies for their children. Let's explore them all.

The Tringali family decided to join Florida's prepaid tuition plan. You can use the plan at any of Florida's 11 state universities or 28 community colleges, most private colleges in Florida, select technical schools and most out-of-state colleges. There are actually three different tuition plans, a "local fee" plan to cover other college fees, and a dormitory plan. The plans can be paid as a lump sum, over 5 years, or in monthly payments continuing until the year the child is expected to enter college. Mike Tringali states: "We locked in the cost of college tuition and fees many years ago for our two children, and those costs have risen dramatically since. While we did not purchase a dormitory plan, and still have to address rent and other living expenses, the plan has been a real deal in meeting the high costs of college tuition." Additional information about the Florida Prepaid College Plan can be found at [www.florida529plans.com](http://www.florida529plans.com).

By contrast, the Ceparano family decided to go another route. Desiring a more flexible plan, several years ago they began contributing funds (including monetary gifts received by the children from other family members) to Section 529 College Savings Plan accounts established for each of their three sons. John Ceparano stated, "We wanted the increased flexibility which comes with those plans, both from the standpoint of making contributions and regarding use of the accumulated funds. Like the prepaid plan, the account balances grow income-tax free. We like having the ability of transferring benefits in the plan from one son to the other." There are college savings plans established by many states and by a few educational institutions, and their features, options and costs vary widely. John Ceparano notes, "We chose not to utilize Florida's College Investment Plan due to its relatively high annual costs (0.75% annual fees) and what we think is a poor strategic asset allocation within the plan. Instead, we went with the Utah Educational Savings Plan Trust, which provides better investment choices and lower costs (0.25% to 0.44% annual fees under their chosen investment option 8)." Additional information about college savings plans, including comparisons of different state plans, can be found at [www.savingforcollege.com](http://www.savingforcollege.com). More information about Utah's plan can be found at [www.uesp.org](http://www.uesp.org). If your child (or grandchild) resides in another state, be certain to review the state tax considerations before choosing any investment option.

The Rhoades family took another course. Rather than save separately for college, they decided to save as part of their overall family plan. Ron stated, "About ten years ago, when we bought our home, we had the goal of becoming debt-free by the time our oldest daughter began college. Fortunately, through careful budgeting and some smart investment decisions, we achieved that goal a few years ago. This has freed up some income which we are able to devote to our children's educational expenses. Our oldest daughter is likely to qualify for the Florida Bright Future Scholarship program, so that will help a lot with tuition expenses next year. We also set aside some funds in a Coverdell Educational Savings Account starting in 2002 when the contribution limits increased to \$2,000 a year. This type of account permits us to choose the investments, rather than be tied to the investments in any particular state plan."

Coordinating withdrawals from any type of college savings plan with other tax benefits, especially the Hope or Lifetime Learning credits, can be tricky. Additionally, setting aside funds in college prepaid tuition or savings plans may affect the amount of financial aid a student may be able to receive. Hence, careful consideration of all of the different college savings plan options, and financial aid, is important in devising a long-term strategy. Every parent of a college-bound student should visit [www.collegeboard.com](http://www.collegeboard.com) and [www.fafsa.ed.gov](http://www.fafsa.ed.gov). They should also discuss financial aid, scholarship, and college savings plan options with their high school guidance counselor and/or their financial advisor. Hundreds of millions of dollars of available grants and loans goes unclaimed each year.

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