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Making the Most of Your College Savings Plans

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For many parents of high school seniors, the excitement of seeing a child graduate is dampened by the prospect of college tuition payments. According to the National Center for Education Statistics, the costs of tuition, fees, and room and board have roughly doubled since 2000–2001 – a rate most families' education savings plans haven't kept pace with. May's Wealth Management Insights looks at common strategies for saving for college and how you can best take advantage of them.

Every $1 you save for college equates to $2.50 you won't need to pay back on a future education loan.

What you should know:

1. Upon hearing sometimes six-figure estimates for four years of college, many parents' initial reaction is "I can never afford that" – so they don't save at all.

- You may not have to foot the bill all by yourself. According to Sallie Mae, on average 35% of college costs are covered by sources other than the parents' or students' financial resources, such as scholarships or student aid.
- Work out the real costs for specific institutions. A nearby university with higher tuition costs may be the better value after room and board, meal and transportation expenses are factored in.
- The most popular education savings vehicle is often the least efficient. A bank's savings account may be convenient, but those funds tend to grow slowly and with few tax benefits, if any.

2. Not all 529s are the same.

- Anyone – not just parents – can save in a 529 college savings plan, and as long as the proceeds are used for qualified college-related expenses, they are distributed tax-free.
- Check for tax benefits and management fees. Although your state may give you a tax break for investing locally, it may make more financial sense to invest in an out-of-state plan with smaller fees.

- Many plans are designed to lessen market risk exposure the closer your child gets to college age, reducing the likelihood that a stock market correction will wipe out your college savings.

3. Apply for financial aid, even if you don't think you qualify.

- Not all financial aid packages are need-based. By filling out the Free Application for Federal Student Aid (FAFSA), your child may be become eligible for scholarships and grants you may not be aware of.
- Look for opportunities to save related to your child's development. Money for expenses your child will outgrow, like diapers and day care, can be applied to college savings.
- By having your child contribute to college costs, you're giving him or her a financial stake in achieving a positive educational outcome.

What you should do now:

The best college savings plans often comprise a variety of strategies and revenue sources. One strategy education experts advise against, though, is raiding your own retirement savings – after all, there are no Stafford loans for retirement. Your Baird Financial Advisor can help you create an education savings plan that is achievable and can coexist with your other financial goals. ■

Investors should consider the investment objectives, risks, charges and expenses associated with a 529 Plan before investing. This and other information is available in a Plan's official statement. The official statement should be read carefully before investing.

Depending on your state of residence, there may be an in-state plan that provides tax and other benefits not available through an out-of-state plan. Robert W. Baird & Co. does not provide tax advice. Before investing in any state's 529 Plan, you should consult your tax adviser.