



Tips for Teens

How Are You Paying for College?

By Stephen Bowman

We have a strong belief that the key to success for youth is to pursue education, specifically higher education. Studies show that participation in higher education means better jobs and more opportunities for everybody. (Source: <http://www.college.gov>) Now the problem is that higher education typically means higher expenses. Like any investment, it takes money to make money! So, what can today's teen do to plan for the upcoming expense of college tuition? Here are some options we have seen work for our clients and friends. As you navigate through the options, remember each option has some pluses and minuses – and it's important to pick what's right for you.

Option #1 **Study hard and hope for a scholarship:**

No doubt there are many many scholarships out there, some are based on grades and others based on outside achievements. Don't think you are out of the running just because you are not in the top 10% of your class. Check with your school counselor, "Google it", and check out other sites for a list of possible scholarships in your area. Scholarships are the best deals because you don't have to pay them back. If you do receive a scholarship, make sure to send a thank you note to the grantor of the scholarship so they continue the program for the next person!

Option #2 **Play hard and plan on a sports scholarship:**

The problem here is that there are very few athletes who actually get one of these scholarships. Athletic scholarships should be considered a bonus, not a realistic plan because you generally won't find out if you are going to get it until it's too late to start saving for an alternative.

Option #3 **Borrow the funds when you are ready to go:**

I think in most cases this is what people do. It certainly is an option but you do have to pay the money back. If you go to school and borrow all of the funds, you may owe well over \$100,000 when you are done. This may take a long time to pay back and it may delay your first home purchase and your ability to save for your retirement. But, as an only option, it still makes sense to borrow the money versus not going to school as statistically it shows that it may cost you much more in the long run without higher education or training. (Source: <http://www.college.gov>) The government has many sponsored programs to access these funds and there are private institutions willing to lend.

Option #4 **Establish a Grandparent Hope and Trust Account:**

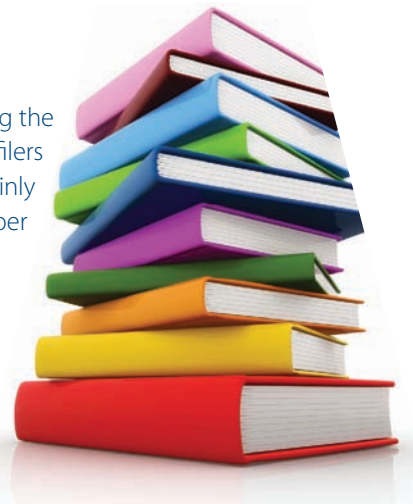
Here you "hope" and "trust" the grandparents will pay for the expenses. There are some obvious potential problems with this one but if it works, great!

Option #5 **Save up money using a Coverdell Education Savings account:**

A person can put in money each year for a student under the age of 18 and the distributions (including the earnings) come out free of tax if used for education. Now, there are income limits to participate (single filers earning under \$95,000 and joint tax filers with income under \$190,000) but tax free growth can certainly help entice some deposits. The total amount that can be added to this account is \$2,000 per year per student. Depending on your age, it may be too late to use this account as your main tool.

Option #6 **Last but not least, save up money using a 529 Plan:**

This is a government plan to help future students develop some savings at a faster pace than the Coverdell. In this case a person does not get a tax deduction for the deposit, but more money can go into the account per year. The amount you can put in is limited to what a person can give you each year without triggering what is called a gift tax. So, if you can convince Grandpa, Grandma, Mom and Dad to throw in some funds, you can put over \$50,000 into the account in a single year. You can also put in some of your own money. Here the growth in the plan may come out free of tax if used for qualified expenses. To entice your friends and relatives to deposit funds you can explain to them that the value will be excluded from their estate and if you don't behave or if you do actually get a full ride scholarship you (or your parents) can transfer the balance of the 529 plan to your little nerdy brother who is planning to go to Harvard!



Did you know....

Average Published Charges for Undergraduate + Room and Board (One Year's Expense)

	2008 - 2009	2007 - 2008	\$ Change	% Change
Public Four-Year In-State	\$14,333.00	\$13,558.00	\$775.00	5.7%
Public Four-Year Out-of-State	\$25,200.00	\$23,953.00	\$1,247.00	5.2%
Private Not-for-Profit Four-Year	\$34,132.00	\$32,326.00	\$1,806.00	5.6%

Source: <http://professionals.collegeboard.com/profdownload/trends-in-college-pricing-2008.pdf>

QUIZ

1. 90% of teens who apply receive sports scholarships for college.

- TRUE
 FALSE

2. The Grandparent Hope and Trust plan is a government funded aid program.

- TRUE
 FALSE

3. College tuition rates are getting cheaper.

- TRUE
 FALSE

4. You receive a tax deduction for money put into a 529 plan.

- TRUE
 FALSE

5. Money that comes out of a 529 plan to pay for education is tax free.

- TRUE
 FALSE

All correct quizzes will receive a Business & Estate Advisers, Inc. pizza cutter!
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