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EDUCATION FUNDING NOT AN EASY TASK

Most people consciously think about investing for their retirement objective. With so many investing vehicles available, including company sponsored 401K plans, many employees start saving for retirement as early as their first year of employment. Saving for retirement is a well-revered financial objective, due mainly to the understanding of the magnitude of the task.

The same understanding and regard does not hold true, however, for the other prominent financial objective that impacts people's lives - the college funding objective. If we can project that a four-year private college education may cost a Y2K newborn \$250,000, then we have to look at the avoidance of the issue as one of denial, apathy, or ignorance.

Consider the fact that the college objective comes first in the financial pecking order. Also consider the harsh reality that a poorly planned college fund will negatively impact the retirement objective.

The reason we all struggle with these psychological issues lies in the emotion surrounding this financial objective. Unlike the retirement objective that is driven mainly by the fear of running out of money or leaving the workplace ASAP, the college objective is more complex.

Looking and dealing with a two-year old child on a daily basis makes it difficult to intellectualize the act of someday leaving this would-be 18 year-old at some college dormitory to start freshman year.

In spite of this emotional disconnect, however, many parents at least "agree" that the financial aspect of the objective should be addressed early. Most parents know that, in the equation for compound growth of a dollar, "time" provides the greatest return with the least amount of money. For example, an annual \$25,000 college education today is estimated to cost our 2 year-old \$54,000 in the first year (year 2016) and \$63,000 in the fourth year, equaling a four year total at \$235,000. These costs are inflated at the current college inflation rate of 5 percent.

If a parent can earn a rate of return of 10 percent per year, investing perhaps

in a S&P 500 index fund, they will be required to save various amounts depending upon when they start the investment program. At a child's age 2, for example, parents would have to save \$377/month (\$4,737/annual) to accumulate the total \$235,000 needed for Billy or Natalie's college education.

Let's examine the effect of delaying the start of saving toward that education objective.

If either Billy or Natalie are age 6, with therefore 12 years to invest, the cost rises to \$494/month (\$6,209/year). Starting at age 10, with only 8 years left in the formula to accumulate the necessary moneys, the monthly savings amount would increase to \$683 (\$8,588/year).

The worst scenario would be to have no money saved, which, in year 2016, would require monthly outlays of \$4,896 for the 48 months the child attended college.

Hopefully, college costs will slow down in future years. But that is an unknown for which we cannot plan.

What are the best methods to save for the college objective?

The traditional method is the Uniform Gifts to Minors Act (UGMA). But alternative funding methods are available, including the use of jointly owned tax managed accounts, IRS Section 529 state tuition plans, and contributions to a Roth IRA.

All three ideas are relatively new in concept and deserve more analysis. In two weeks, I will explore these alternative college-funding methods.

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