

Saving for College

New Year—New Plans

Start/Build your college savings plan in 2015

At the end of the holiday season, many people focus on the new year. They begin with new year's resolutions and many sit with a blank sheet of paper and start to plan the next 12 months—school schedules, doctor appointments, vacations, sporting events. Very quickly calendars start to fill up and household budgets begin to take shape. This winter is the perfect time to analyze your household budget and make a resolution to begin a college savings plan.

Save or Borrow:

When individuals save—they are earning interest on the amount saved. However, when individuals borrow money—they will be paying interest. It's always better and cheaper to save than to borrow. Let's take a quick look at the graphic below. We have 2 families with the same aged children—Pat and Kelly.

Scenario 1: Kelly's parents start investing \$100/month into a 529 plan right after Kelly's birth. In 18 years (assuming 5% annual rate of return), Kelly's family could potentially save over \$35,000.

- This scenario includes \$21,600 of contributions to the savings account (calculated at \$100/month for 18 years). The additional \$13,400 is from earned interest.

Scenario 2: Pat has to borrow \$35,000 to attend college. Based on a private student loan rate of 7.0%, Pat could be faced with a monthly payment of \$406 for 10 years (or paying a total of \$48,720).

- This scenario demonstrates that Pat would have to pay back the \$35,000 loan plus an additional \$13,720 in interest—assuming a 7% interest rate.

Create a College Savings Plan

Once you've decided to create a college savings plan—here are some strategies to consider to fund the plan: create a savings budget, contribute extra income, or contribute when additional opportunities present themselves.

Create a College Savings Budget

Decide to contribute a certain amount each month and have it automatically deducted from your checking account. This will help you stay on-track throughout the year. You may also decide to alter your lifestyle to increase contributions.

Contribute Extra Income

Throughout the year, you may find opportunities to contribute extra income that you were not expecting such as:

- Income tax refund
- Salary Increase
- Holiday/Birthday Gifts

Use these opportunities to boost your college savings.

Additional Opportunities

When one monthly expense ends (e.g., car payment, day care, student loans) make an equal monthly contribution to a college savings plan. This will help increase your monthly savings to help you reach your goal.

Whatever your strategy—make sure you are starting to save, remember—you're preparing for one of the largest investments you'll make for your child—it's better to save now than to borrow later.

