Paying for Your Child's Education Is Not as Hard as You May Think

While planning for the arrival of your bundle of joy, you probably purchased or received gifts such as baby clothes, furniture, formula, and other necessities. All of these items are important in raising a child. But have you thought about your child's needs as he or she grows older, such as how college costs will be covered? Because reaching college age seems so far away, most people fail to think about it until it's too late. However, planning for your child's education is just as important as planning for their arrival.

Investing in your child's future now will pay off later.

Don't Bank on Scholarships Some children are fortunate enough to receive academic, athletic or other types of scholarships, fellowships and/or grants. Having college costs paid for through these means would be great, but it is not guaranteed. Many parents who depend on these are disappointed when things don't turn out as planned and may be forced to go into debt or dip into their retirement savings to pay for their child's education. You should plan ahead for your child's education, and if your child does receive other financial support then the amount saved can be used for your child's or family's other expenses. If your savings are in qualified education accounts, it's important to remember that some of these accounts do impose penalties if funds are not used to cover your child's educational expenses.

Total Potential Earnings for College Over 18 Years

Amount Saved Per Month	Interest Rate 6%	8%	10%	12%
$50	$19,368	$24,004	$30,028	$37,893
$100	$38,735	$48,009	$60,056	$75,786
$125	$48,419	$60,011	$75,070	$94,733
$150	$58,103	$72,013	$90,084	$113,679

Note: *This is for example purposes only. Investment returns are not guaranteed, and the amount you earn on your investment account will be based on the type and performance of the investments in your portfolio.*

Every Dollar Adds Up If you plan ahead and start when your child is born, paying for your child's education is not as hard as you think. As shown in the table, if parents invest as little as $50 per month in an account earning 6 percent from the time the child is born until he or she is 18 years old, they will have $19,307 when the child goes to college. Of course, if parents save more and earn higher interest rates, they will have even more by the time their child turns 18. This is the power of consistently investing a set amount over a period of time, also called *dollar cost averaging*. Also, when you invest money and leave what you earn in interest in the account, you earn interest on what you invest each month plus the previous interest earned. This is the power of *compound interest*, or earning interest on interest. The amount of money

Tips on Cutting Back and Monthly Savings

One snack, candy or soda per day	$23 – 78
One coffee or latte per day	$31 – 93
One fast food meal per day	$78 – 186
One music download per day	$31 – 62
One pack of cigarettes per day	$93 – 155
One lottery ticket per week	$4 – 22
One 6 pack of beer per week	$27 – 40
One CD or DVD per month	$12 – 15
One manicure per month	$30 – 50
One movie ticket per month	$7 – 10
One pizza, take-out per month	$10 – 20
One impulse buy per month	$25 – 100
Saving spare change in a jar daily	$10 – 25

you should set aside is based on how many children you have and the inflation-adjusted cost of the college they wish to attend. Like everything else, the cost of college increases over time, and so this needs to be considered.

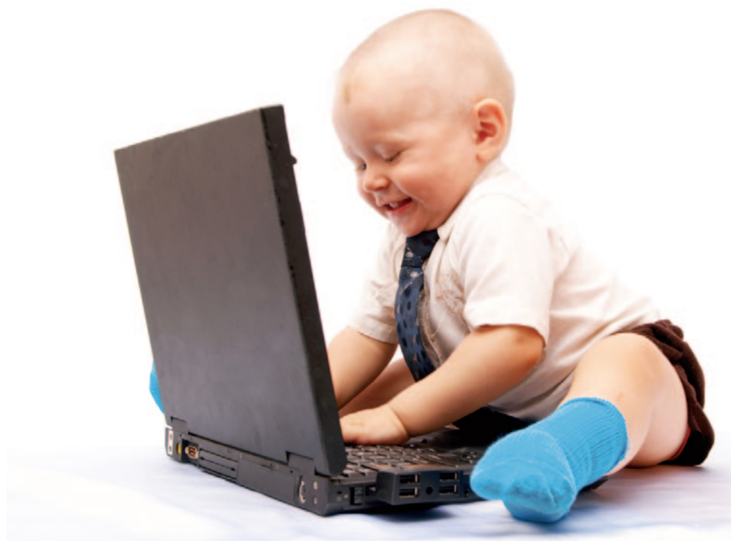
Programs to Help You Save To encourage parents to save for their child's college education, the federal and state governments have established tax-advantaged savings accounts or plans specifically designed to save for their child's college education. Some of these include the Coverdell Education Savings Account, Section 529 Savings Plans and Prepaid Tuition Plans. Other tax-advantaged methods used to save for children's education include putting money into U. S. Savings Bonds and custodial accounts for the child. *The account and/or plans you use will depend on your unique family circumstances and tax situation. One size does not fit all.*

Life Insurance Although death is not a pleasant subject, parents should also think about the possibility of their death after the birth of a child. Most parents with a young child have not had the time to accumulate the necessary financial resources to care for their child if they die unexpectedly. However, the child has to be provided for financially, and the cost of college is one of the child's financial needs.

One way of providing for your child is to purchase life insurance. The primary purpose of life insurance is to provide the financial resources needed by your dependents in the event of your premature death (dying while someone is financially dependent upon you). There are many different types of life insurance, so parents need to choose a life insurance plan that best suits their needs. As with the tax-advantaged educational accounts and/or plans, one size does not fit all.

The Bottom Line If you have not started planning for your child's education, don't be discouraged. It is never too late. Start now. Regularly save as much as you can, and let the power of compound interest work for you.

Joan Koonce, PhD, AFC and Michael Rupured, MS, AFC
Department of Housing and Consumer Economics
College of Family and Consumer Sciences



For more information, contact your local FACS County Extension Agent *at 1-800-ASK-UGA1 (275-8421) or visit:* **www.gafamilies.org** *for more information on saving for college, college savings plans, investing, and/or life insurance.*

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