finding the funds

When a recession means re-thinking saving for college

BY KRISTEN DE DEYN KIRK

Andrea from Chesapeake doesn't have the money for the expensive colleges her soon-to-be high school senior is thinking about attending. She's not sure if less-expensive schools are in the budget either.

She and her husband always had intentions of starting that "college fund," but she "never got there." Four children and a mother-in-law living with the family made it challenging; so did the family's commitment to always buying a house in a great school district when they moved with the military.

"We tried to give you so much with the best school districts we could afford - and sometimes *couldn't* afford," she explained to her daughter. "We'll do our best to help, but you'll need to investigate scholarships and save your money from your part-time job."

Andrea knows she did all she could, but she can't help sighing when thinking about what could have been. Financial advisors understand her dilemma: How can you squeeze out savings when you're already squeezing out every last cent from your budget?

Penny by penny

Parents can go the route of a good, ol' fashioned savings account in their name, says Robin Tull, a certified financial planner with Tull Financial Group, Inc. in Chesapeake. While there's no tax benefit, you've at least given conscious thought to saving in a fund specifically for college.

Tull and Jonathan Muhlendorf, a certified financial planner with Muhlendorf Shepherd Financial Group in Virginia Beach, both mention the 529 College Savings Plan as well.

"Your investment grows without the burden of tax if the money is used for college and related expenses," says Muhlendorf.

To decide if a 529 in a child's name is a good idea, parents must first think about whether or not they will qualify for needs-based financial aid from the federal government.

"If you could qualify, it's not in your best interest to save directly for college in the child's name (with a 529)," says Muhlendorf, who used to run a business called College Funding Solutions. "It's the worst thing. It will automatically diminish the amount of needs-based financial aid you'll qualify for."

Hoping to be financially secure by the time you fill out those college application forms? If that is the case at the time, don't worry about hurting your chances, because you won't qualify for the needs-based aid anyway, so a 529 savings plan in a child's name doesn't matter.

Muhlendorf recommends that parents who might qualify for needs-based financial aid save with Roth IRAs in their names. The Roth can be tapped earlier than usual (generally the holder's 59 1/2 birthday), if funds are used for higher education.

Another option might be a good idea, too: The Virginia College Savings Plan. The Virginia Prepaid Education Program option (one of the four offered) allows you to pre-pay for a state college at today's rates.

You'll save money, but it's not perfect.

"If the child changes his mind, you'll only get a minimal interest return on your investment," explains Tull.

Yet, he believes it might be worth the gamble if your children are already showing an interest in a state school and they're only in middle school.

Take care of yourself

Retirement funding must be considered, too.

Many parents can't save for both their retirement and college.

" Some will split savings between retirement and college or decide on minimal savings for college," says Tull.

Try to do something for your college-bound children, but erase any guilt you might feel if you can't swing it.

"You can finance college," says Muhlendorf. "It's not possible to finance your retirement."

He suggests saving 15 percent or more of your annual income for retirement.

And for college?

"At least as much as you spend going out for dinner each month."

To help you reach your college - and retirement - savings goals, you'll want to think about how to save money on the overall cost of college as well.

Andrea likes that her daughter is taking four Advanced Placement classes this coming up school year, which will give her "free" credit for four college classes.

She could also consider staying very close to home:

"Community college for two years is something people (who maybe thought they wouldn't) are doing," says Tull.

But he cautions that some children will slide a bit in becoming adults if they go the route of a community college and live at home. He likes to see kids go away to school and learn independence, with the challenges of a bank account, a budget and laundry.

The pressure of getting your money's worth continues once the kids enter college as well: You'll want to make sure they do their schoolwork once they get to college.

"The best way to save at this point, if you haven't been, is to make your child finish college in four years," says Muhlendorf. "Tell him you're only paying for four years. I read recently that the average to complete college is now six."