Where to Invest Your College Money

By the Editors of
Kiplinger's Personal Finance

Saving enough sounds like a formidable task, but don't get discouraged

Saving enough money to pay for four years of college sounds like a formidable task, but don't get discouraged. If you have young children, you have a chance to start early and let your money grow.

What if you start late or have more than one kid or can't afford to save the same amount every year? Save what you can. Having some college money, even if it's not the full amount, gives you a foundation on which you can build during the college years. One way to start investing for college is with the booklet *Where to Invest Your College Money*. Here's a sample of the information in the booklet:

The Basics of Investing

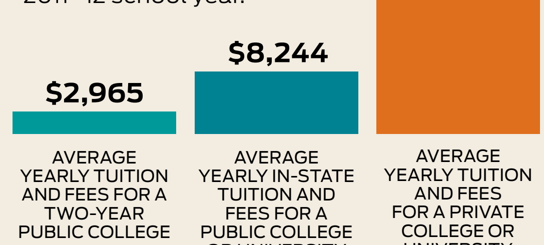
Before you can start building your college fund, you have to know where to invest your money. In general, stocks have outperformed all other investments by a big margin over long periods of time. Since 1926, the stocks of large companies have produced an average annual return of nearly 10% (including the lows during the Great Depression, the 2000–02 stock slide that followed the collapse of the Internet bubble, and the financial crisis of 2007–09).

If stocks are too unsettling for you, or if you have fewer than eight years until you start to pay the college bills, you will want to add bonds or other fixed-income vehicles to reduce the overall risk level of your portfolio. A bond is an IOU issued by a corporation or a government. When you buy a bond, you are making a loan to a company or government, which agrees to pay you a fixed amount of interest until the bond matures. At that point you are paid the bond's face value. Although investing a portion of your assets in bonds may reduce your overall rate of return, the additional diversification and safety will make for a smoother ride toward your goal.

If you're unsure about how to invest, sock your college savings in mutual funds. A mutual fund pools money from many investors and buys a portfolio of stocks, bonds or a mix of both designed to achieve a specific investment goal. Mutual funds are especially well suited for beginning investors who worry about their ability to select appropriate stocks or bonds. But even experienced investors and those with large portfolios can benefit from what mutual funds have to offer: instant diversification, automatic reinvestment of earnings and easy-to-monitor performance.

THE COSTS OF COLLEGE

Tuition and fees are only a part of your overall college costs (room, board, books and fees add up to your total costs). Figures shown here are from the College Board and are for the 2011–12 school year.



Investing in a 529 Savings Plan

These state-sponsored investment accounts, named after the section of the tax code that gives them tax-favored status, let you shelter your college savings from federal (and usually state) income tax. You don't get a federal tax deduction for your contributions to the account, but your investments grow tax-free, and the earnings escape tax altogether if you use the withdrawals to pay for qualified education expenses—such as tuition, fees, room and board, and textbooks.

You may also get a state tax deduction or tax credit as a reward for your contribution to these qualified tuition programs. About two-thirds of the states and the District of Columbia allow you a state tax deduction or other tax benefit as an incentive to save for college.

Unlike other education savings programs, 529s let you participate no matter how much you earn, and the states set generous limits on total contributions—in many cases more than $300,000. You make your contributions, starting with as little as $25 or $50, by check,

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State Securities Regulators have protected investors from fraud for more than 100 years. Securities markets are global, but securities are sold locally by professionals who are licensed in every state where they conduct business. State Securities Regulators work within your state government to protect investors and help maintain the integrity of the securities industry.

Your State Securities Regulator can:

- Verify that a broker-dealer or investment adviser is properly licensed;
- Provide information about prior run-ins with regulators that led to disciplinary or enforcement actions; serious complaints that may have been lodged against them; their educational background and previous work history;
- Provide a Web site, telephone number or address where you can file a complaint; and
- Provide noncommercial investor education and protection materials.

For contact information for your State Securities Regulator, visit the North American Securities Administrators Association (NASAA) Web site at www.nasaa.org and click on "Contact Your Regulator."

HOW TO ORDER INFORMATION

Get more resources and tools

A variety of noncommercial investor education and protection materials, including booklets, videos and curricula, are available and can be downloaded for educational purposes at **www.investorprotection.org**.

About the Investor Protection Trust

The Investor Protection Trust (IPT) is a nonprofit organization devoted to investor education. More than half of all Americans are now invested in the securities markets, making investor education and protection vitally important. Since 1993 the Investor Protection Trust has worked with the States and at the national level to provide the independent, objective investor education needed by all Americans to make informed investment decisions. For additional information, visit www.investorprotection.org.

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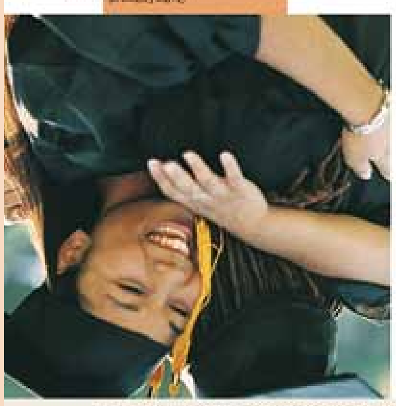
The Investor Protection Institute (IPI) is an independent nonprofit organization that advances investor protection by conducting and supporting unbiased research and groundbreaking education programs. IPI carries out its mission through investor education, protection and research programs delivered at the national and grassroots level in collaboration with state securities regulators and other strategic partners. IPI is dedicated to providing innovative investor protection programs that will make a meaningful difference in the financial lives of Americans in all walks of life and at all levels of sophistication about financial matters. For additional information, visit www.protectinvestors.org.

Where to Invest Your College Money

Get a head start on your kids' education kitty and you'll meet the challenge of paying tomorrow's tuition bills.



Saving for your child's education is one of your most important financial tasks.

Where to Invest Your College Money

When acceptance letters roll in, you'll be ready

through a payroll deduction or via automatic withdrawal from your bank account.

Which plan is best? If you live in one of the states that offer a deduction or a tax credit, there's probably no need to look further. Your savings on taxes likely will overcome any shortcomings of your state's 529. If you don't get a tax benefit from your state, shop around; most state plans are open to residents and nonresidents alike.

Locking in Tuition With a Prepaid Plan

Prepaid tuition plans let you buy tuition at a state college or university years before your child is ready to attend. That can be an attractive idea when tuition is going up faster than the rate of return you're likely to make on your investments.

In most prepaid plans, only state residents are eligible to participate. Typically, you pay a lump sum upfront or pay over time in installments. You must usually buy into a prepaid plan at least three years before your student will be ready to enroll. States charge somewhat more than that year's tuition and fees to ensure that they have enough money to cover future costs.

If your child ends up going to school beyond state borders or to a private school, the plans let you apply the value of your account (usually a weighted average of the costs at in-state public universities) to that school. You can also take a refund, which may include a small amount of interest.

Other Tax-Favored Ways to Save

You have a few other options for your college savings, depending on how high your income is.

Coverdell Education Savings Accounts give you both more and less flexibility than a 529 savings plan. You can set them up for your child or children under 18 at any participating bank, mutual fund company or brokerage firm. The total amount for each child cannot exceed $2,000 a year. Your money grows tax-free, and you avoid tax on the earnings if you withdraw the money for qualified educational expenses.

With a **Roth IRA** retirement savings account, your contributions can serve a double purpose. The Roth allows you to take out your contributions at any time, tax- and penalty-free, so you could tap those contributions for college expenses.

Don't overlook tax breaks for college expenses. Again, income limits apply, and you have to choose which benefit to claim because you cannot use the same expenses to claim more than one benefit.

Among the most generous is the **American Opportunity Credit**, available through 2012 for expenses incurred by students who attend college at least half-time during their first four years of undergraduate education. A parent, spouse or student who is not claimed as a dependent can take a federal income-tax credit equal to 100% of the first $2,000 spent on qualified education expenses—tuition, fees and textbooks—and 25% of the next $2,000, for a total credit of $2,500 for each qualifying student.

More information. To read the full-length *Where to Invest Your College Money* booklet, visit www.investorprotection.org or contact your State Securities Regulator's office.

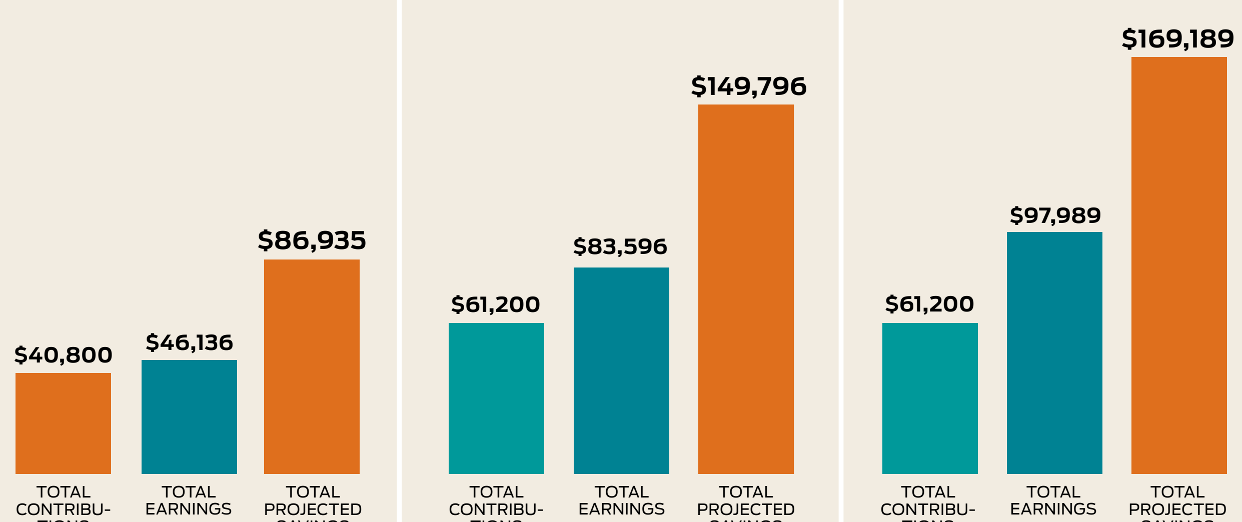
529 INVESTMENT MIX BASED ON YOUR CHILD'S AGE

HOW YOUR COLLEGE SAVINGS CAN GROW

Current savings: $0
Years to college: 17
Monthly savings: $200
Rate on savings: 8%

Current savings: $5,000
Years to college: 17
Monthly savings: $300
Rate on savings: 8%

Current savings: $10,000
Years to college: 17
Monthly savings: $300
Rate on savings: 8%



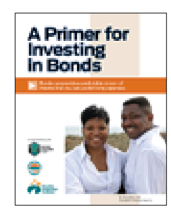
SOURCE: FinAid

MORE INFORMATION ABOUT INVESTING

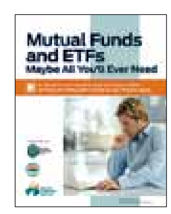
The following booklets from the Editors of *Kiplinger's Personal Finance* magazine and the Investor Protection Trust are available at your library and offices of State Securities Regulators.

Five Keys to Investing Success
Make investing a habit
Set exciting goals
Don't take unnecessary risks
Keep time on your side
Diversify

The Basics for Investing in Stocks
Different flavors of stocks
The importance of diversification
How to pick and purchase stocks
When to sell
Key measures of value and finding growth
What's your return?
Consider mutual funds



A Primer for Investing in Bonds
How do bonds work, anyway?
How much does a bond really pay?
How to reduce the risks in bonds
Going the mutual fund route



Mutual Funds and ETFs: Maybe All You'll Ever Need
Mutual funds: The best investment
The different types of funds
How to choose funds
Assembling a portfolio
Sources of mutual fund information
Where to buy funds

Maximize Your Retirement Investments
Three key rules
Creating the right investment mix
Investing on target
Best places to save
Guidelines for saving at every life stage
Getting the money out and creating an income stream
Protect your money: Check out a broker or adviser

Getting Help With Your Investments
Do you need a financial adviser?
Who's who among financial advisers
How to choose an adviser
How to open an account
5 questions to ask before you hire an adviser
What can go wrong
How to complain

Where to Invest Your College Money
The basics of investing for college
Investing in a 529 savings plan
Locking in tuition with a prepaid plan
Other tax-favored ways to save
Tax credits for higher education
Save in your child's name?

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