Paying for college – your number two priority

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In today's highly competitive admissions process, families must never lose sight of the fact that nothing is more important to parent or student than a letter of acceptance. Your second priority is how you're going to pay for it, as all the financial aid in the world is useless without that coveted admission ticket!

Planning for college can begin as early as birth, and proper financial planning in the early years can make all the difference when it comes time to have to cough up all that cash - as much as $250,000 (2014). Here are some of the most common ways families save for college:

Custodial Accounts: With Uniform Gift or Uniform Transfer to Minors Act Accounts (UGMA or UTMA), parents, grandparents, etc. can each contribute up to $14,000 per student per year (2014). This money can be used for college or any other purpose. While the money remains in the student's name, the custodian, usually a parent has absolute control over the account. UGMA accounts only accept cash. UTMA accounts accept cash and property.

The Downside: UGMA and UTMA accounts are irrevocable gifts considered student assets. In the financial aid formulas, students have no asset protection allowance and are assessed (financial aid lost) 20% per year. This option must be used with extreme caution.

Coverdell Education Savings Accounts (Coverdell's): A single parent with an adjusted gross income (AGI) of $95,000 up to $110,000, and joint filers with AGI's from $190,000 up to $220,000 can contribute up to $2,000 annually. Earnings accumulate tax-free and can be withdrawn tax-free without penalty to pay for a private elementary, secondary, or college education.

The Downside: With the current limit of $2,000 (2014), fees can eat up much of the gains in the early years. Contributions are not tax deductible, and all colleges consider Coverdell's parent assets and apply the 5.64% assessment when calculating financial aid. What's even worse is when distributions are made from these accounts in excess of the EFC (Expected Family Contribution – the minimum the federal gov't determines a family will pay at any college) financial aid from the college or university is automatically reduced dollar for dollar, because in addition to being an asset, the funds have now become a *resource*. You can *legally* reposition these funds so they won't be counted in the financial aid formulas, and then none of the money will be assessed.

529 Savings Plans: Anyone can open a 529 Plan in his or her own name and designate a student as beneficiary. Up to $60,000 ($120,000 jointly) may be contributed over five years to a maximum of $325,000 (some plans permit more). Funds grow tax-free and withdrawals since 2002 have been tax-free as well, and many sates allow the contribution to be state tax deductible.

Downside: Monies contributed are not federally tax deductible, and there is little or no control over how the funds are invested. Also, a 10% penalty for withdrawals applies to funds not used for college. Having money in a 529 Plan will decrease the chance for a large grant or scholarship – and that's not all. When distributions occur that exceed your EFC, financial aid is automatically reduced dollar for dollar. As with Coverdell's, you can legally reposition the funds into financial vehicles that are not included in the financial aid calculations.

Retirement Plans: An IRA, HR10 (Keogh), Pension, SEP, 401(k), 403(b), 457 or any other qualified retirement plan should be considered first when saving for college. Such plans are not regarded as assets and are not included in the financial aid calculations. While the account value is not considered an asset, contributions are added back to the AGI for an income assessment of as much as 47%. The BIG print giveth, but the small print taketh away!

Non-Qualified Savings Plans: Families should set up these accounts to pay for any unanticipated costs and their EFC. These accounts should be set up as early as possible, so there will be adequate money when the time comes to pay for college. When students enter high school, consider reducing

"high risk" investments. Never gamble with money that's earmarked for education. And never lose sight of the fact that all monies saved for college will not serve their purpose unless the student prepares for and successfully completes the admissions process.

For over 35 years, noted financial advisor, Reecy Aresty, has helped thousands of high school and college families to obtain the American Dream; a superior education at a cost far less than they ever dreamed possible. He is the author of the highly acclaimed admissions and financial aid manual, ***How To Pay For College Without Going Broke***. For further information on admissions and financial aid, please visit: www.paylessforcollege.com.