Two Options for Financing a Child's College Education

By Andrew Menachem

If you have a child in high school, you probably paid attention to the recent college admissions cheating scandal. About 50 people, including high-profile celebrities, have been charged with illegally paying millions of dollars to get their sons and daughters into prestigious schools.

Other wealthy parents have used their financial clout legally, making major gifts to colleges and universities in hopes of opening the door for a child with average academic accomplishments.

However, it is far more common for parents to be faced with the opposite dilemma: How to finance a college education for a talented young adult? After all, the average cost for tuition, fees, room and board at a public university was $16,757 and $43,065 at a private nonprofit institution in 2015-16, according to the U.S. Department of Education.

Fortunately, there are many potential sources of financial support, including scholarships, work-study programs, internships and student loans. Talking with a high school guidance counselor or conducting an online search can help get you pointed in the right direction. However, you may still need to pay many college expenses out of your own pockets, even if your child gets a scholarship.

But if you would prefer not to "rely on the kindness of strangers," to steal a line from playwright Tennessee Williams, you can start putting money aside for the future, and take advantage of two complementary Florida programs.

The 529 Savings Plan

One strategy that offers tax-advantages and flexibility is the Florida 529 Savings Plan, named after a section of the Internal Revenue Code that allows you to save money for educational purposes. With a 529 Savings Plan, you can contribute any amount, whenever you want. Other family members and friends can also make contributions to your child's college fund.

Those funds will grow tax-free until you withdraw the money to pay for college tuition or other education-related expenses. That's an important advantage because it allows your savings to grow more quickly than if you simply put the money into a traditional mutual fund or another type of taxable investment.

Once you start making contributions to a 529 saving plan, you can put that money into three predesigned investment portfolios, or you can design one yourself. With a young child, for instance, you might consider growth stocks with the potential to increase in value before your child applies to college.

For an older child, you might choose bonds or other assets that historically are less volatile than stocks, reducing the potential downside risk. As with any investment, it is possible to lose money with a Florida 529 Savings Plan. In any case, it's a good idea to talk to your financial advisor about your options.

When your child is ready for college, you can use your savings at any qualified college or university in Florida or elsewhere in the U.S. When you withdraw the money for qualified educational expenses, you don't pay taxes, either. That means you can take out as much money as you need each semester without worrying about the tax consequences.

The Florida Prepaid Plan
Another option is a Florida Prepaid College Plan, which allows you to prepay the future cost of tuition and fees with the additional option of dormitory housing. You can prepay in one lump sum or through a series of payments, whichever you prefer.

One of the major benefits of a prepaid plan is that it locks in the cost of the major college expenses at any Florida college or state university. Even if tuition or fees rise in the future, those expenses will already be paid in full. If your child goes to an out-of-state school, the plan will pay an equivalent amount.

> The State of Florida guarantees these plans, so you don't have to worry about losing the money you've set aside for college. If your child doesn't go to college, you can transfer the benefits to another qualified family member or request a refund.

The Florida Prepaid and 529 Savings Plan are designed to complement each other. For example, a prepaid plan will cover tuition and specified fees, while a savings plan can pay for books, computers, room and board, and other expenses.
As with any savings or investment plan, it's better to get started sooner, rather than later. That provides more time for your investment to grow, helping you become better prepared financially for the cost of your child's higher education.

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