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Saving for College in Uncertain Times with 529 College Savings Plans by James Garfinkel

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For the past decade, policymakers and parents have been decrying the rising cost of college and promoting innovative college savings plans as a way to respond to the crisis. However, the cost of college continues to rise steadily. According to The College Board, a not-for-profit membership organization, in 2011-12, the cost of a public four-year college costs $8,244 (tuition and fees) for in-state students. The average cost for full-time out-of-state students at a public four-year college is $12,526. Private nonprofit four-year colleges charge, on average, $28,500 per year in tuition and fees.

One of the most popular ways parents are saving for college is with 529 college savings plans. A 529 college savings permitsa parent, grandparent or other owner to save for college free of federal and, in many instances, state taxes. The owner of the 529 college savings plan can use plan assets to help pay for tuition and other qualified higher-education expenses.

A recent Wall Street Journal article (C7 - December 5, 2011)estimated the state-tax savings for a couple filing a joint 2011 return with $100,000 in taxable income and contributions of $2,500 each to two childrenâ€™s in-state 529 college savings plans. In Indiana, which offers a tax credit, the estimated state-tax savings would be $1,000. Like Indiana, Utah and Vermont offer a tax credit instead of a deduction.

One other important consideration for 529 plans highlighted in the Wall Street Journal article -- Arizona, Kansas, Maine, Pennsylvania and Missouri allow you to choose a 529 plan from any state and receive a deduction in one of thosefive states. Most states favor in-state 529 college savings plans.

If you live in one of the 16 states that do not offer state income tax benefits, you should examine 529 plans more closely. There may be other savings and investment products that offer greater flexibility and similar tax advantages. For example, parents can tap into their retirement savings without penalty or purchase a permanent juvenile or child life insurance policy which can grow on a tax-deferred basis and provide an available source of funds for college or any other purpose.

With either whole life or indexed universal life insurance, growth of cash value is tax deferred and withdrawals up to basis are considered a tax-free return of principal. Withdrawals that exceed total premium contributions are taxed as ordinary income. Both products provide flexible access to cash at any time, for any purpose.

For tax efficiency, insurance professionals generally advise withdrawals only up to the value of total contributions. This leaves the gains inside the policy where they will continue to grow tax-free and preserve the childâ€™s fully paid lifetime insurance coverage.

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James Garfinkel, founder and CEO of New Amsterdam Life Insurance Foundation. Find out more about a College Savings Plan and a 529 Plan and child life insurance quotes at http://newamsterdamlife.com.

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