Planning for Your Child's College Education

What to Know

While it's never too late to start saving for your child's college education, it's never too early either. To help you save, Michigan offers four options:

- **529 Basics**
  A 529 plan is a tax-advantaged college savings/investment plan designed to encourage saving for the future higher education expenses of a designated beneficiary (typically one's child or grandchild). The plans are named after Section 529 of the Internal Revenue Code and are administered by state agencies and organizations.

  There are two types of 529 plans: prepaid tuition plans and savings plans.

  - **Prepaid Tuition Plans** allow for the pre-purchase of tuition based on today's rates and then paid out at the future cost when the beneficiary is in college. Performance is often based upon tuition inflation. Prepaid plans may be administered by states or higher education institutions.
  - **Savings Plans** are different in that your account earnings are based upon the market performance of the underlying investments, which typically consist of mutual funds. Savings plans may only be administered by states.
- **Michigan Education Trust (MET)**
  The Michigan Education Trust (MET), Michigan's guaranteed tuition program, allows parents, grandparents, or others to purchase future college tuition at today's rates. With tuition rates likely to continue rising, MET provides a way for individuals to avoid rising tuition rates.
- **Michigan Education Savings Program (MESP)**
  The Michigan Education Savings Program (MESP) is a savings/investment program designed to assist families with preparing for higher education expenses. A child's parents or others can open an account for the child/beneficiary. The MESP account then can grow through regular contributions and investment growth.
- **MI 529 Advisor Plan (MAP)**
  The MI 529 Advisor Plan provides Michigan residents with a way to invest in a 529 college savings program utilizing the expertise of a financial advisor. The MAP offers a variety of unique benefits that set it apart from other 529 plans in the country.
- **Student Financial Aid**
  Student financial aid consists of any source of funds available to students and their families to pay for the cost of any postsecondary education. The main sources of student financial aid are the federal government, state government, institutions (colleges and universities), and private sources such as associations, foundations, employers, and unions. Student Scholarships & Grants (SSG) administers approximately 100 million dollars in scholarship and grant money to help Michigan students pay for college.

What to Do

Look into ways to help reduce the cost of your child's college education. For example:

- Many high schools offer college classes. The more credits your child can earn before entering college, the better. Check with your child's high school guidance counselor.

- Consider a community college for the first year or two. Tuition is generally less expensive than a four-year institution.
    - Make sure course credits are transferrable to the college your child plans to attend later.
    - Pay cash. This allows any college saving plans you have to continue to grow.
- Buy used books or check online for textbooks selling at a substantial discount to those in the college bookstore.
- Look into cooperative education programs which allow your child to alternate between working full time and studying full time. These programs are not based on financial need.
- Apply for scholarships every year.
- See if your child qualifies for merit-based aid.

Where to Go

- For additional information about MET, call 800-MET-4-KID (800-638-4543) or visit www.setwithmet.com.
- For additional information about MAP, call 866-529-8818 or visit www.MI529Advisor.com.
- For additional information about MESP, call 877-861-MESP (877-861-6377) or visit www.misaves.com.
- For more information about Student Scholarship and Grants, contact SSG by calling 888-4-GRANTS or visit www.michigan.gov/ssg.

When to start saving?

When should you start saving for your kid's college? In short, the sooner the better. The earlier you start, the sooner you can take advantage of the compounding effect of time on your investment. For example, assuming an annual return of 6%, to reach a saving goal of $100,000 when the child reaches 18, you need to invest $256 a month if you start right after your child is born. However, if you wait until the child is 8 years old, then you would need to invest $607 a month. With some investment options, such as a 529 plan, you can start saving for your kid's college even before they are born.

That said, it's never too late to start saving either, even if college is just a year or two away. You can still get the tax benefits many college saving vehicles offer. In addition, it is less expensive to save for college than to borrow. When you save, the money earns interest. When you borrow, you pay the interest. Remember, every dollar you save is one dollar less you have to borrow. Just one catch if you start late – you may need to consider taking a more conservative investment approach, because your saving has less time to recover from a market downturn.

Another college saving strategy is saving regularly. Paying for college is like paying for any big-ticket purchase. For most people, setting up a payment plan where you set aside an affordable amount of fund regularly, is much easier than making a big contribution at one time. Regular contributions, however modest, can add up over time. Investing the same dollar amount regularly is also an effective investment strategy to weather through the market ups-and-downs, and may help lower the average cost of your investment. Setting up an automatic monthly contribution plan is a good way to build your discipline in saving regularly.