NEW WAYS TO SAVE FOR COLLEGE

At age three, Kimberly Kolhauser hasn't devoted much thought to college. But her parents have. Richard and Carol Kolhauser of Springfield, Illinois, are among the very first to invest in a new state program aimed at helping parents pay for college. In January 1988, the Kolhausers bought a newly issued Illinois College Savings Bond for $1,766. The bond will be worth $5,000 when Kimberly is ready for college.

Susan and Larry Valencic of Holt, Michigan, are also using an innovative state program to save for their son's education. For an investment of $7,600 now, Michigan guarantees the total cost of eight-year-old Joshua's tuition at any public college in the state.

It's no wonder these families are planning ahead. Tuition, room and board and assorted extras such as books, laboratory supplies and transportation at the average private college cost $12,830 in the 1988–1989 school year, according to The College Board, a nonprofit educational association in New York City. By 2004, if costs continue to rise at 7 percent a year, the typical annual price tag for college will be $38,000.

And that is why everyone from the local college president to the local Congressman is trying to create new ways to pay for college. Such plans offer investment opportunities, but each also has drawbacks. Here's a quick guide to help you sort out the best from the worst:

In 15 years, the typical yearly tuition will be $38,000. Which of today's innovative savings plans will best finance your child's tomorrow?

NEW FEDERAL PROGRAM The newest college savings plan is also one of the oldest. Parents have long used Uncle Sam's familiar series EE savings bonds, costing as little as $25 apiece and widely available at local banks and through payroll-deduction plans, to stash money away for college. But Congress recently made them even more appealing: Interest on EE bonds purchased after December 31, 1989, will be totally tax-exempt when proceeds are used for tuition.

The bonds must be in your name, not your child's, and must be owned individually. The exemption applies only to proceeds used for tuition and required fees, not for room and board or anything else. (You can cash the bonds and use them for other purposes, but you must pay taxes on the interest earned.) The IRS hasn't yet spelled out what you'll have to do to prove how the money was used.

But before you think all your problems are solved, heed these restrictions: The tax exemption starts to phase out for couples with adjusted gross income of $60,000 and singles with income of $40,000. The exemption disappears entirely for couples with $90,000 of joint income and singles with $55,000.

If your income exceeds these limits, the income from the bonds will be taxable. In that case, you may want to put them in your child's name, since your child will probably be in a lower tax bracket when she reaches college age.

STATE SAVINGS PROGRAMS Fifteen states have decided to issue their own college savings bonds, and six have already begun (Connecticut, Illinois, North Carolina, North Dakota, Oregon and Washington State).

Illinois' program, which the Kolhausers used, is considered the model for such plans. These bonds are exempt from federal and state taxes, and are sold at a substantial discount from face value. As noted earlier, the Kolhausers paid $1,766 for a $5,000 bond. Like federal savings bonds, these bonds don't pay any interest until maturity. Parents may choose a maturity date pegged to the year their child will enter college.

The Illinois bonds are available through banks and stockbrokers, but are not always on sale. States may issue college savings bonds only once or twice a year, so parents must check with a bank or stockbroker to find out when they are available. Illinois issued bonds in January and September of 1988 and sold out almost immediately. Another issue isn't planned until sometime after July.

Some critics argue that these plans aren't a good gamble because their return is fixed. "Fixed-rate plans can be dangerous, a roll of the dice," contends Professor Richard E. Anderson, director of the Forum for College Financing, a research program at Columbia University Teachers College in New York City. If double-digit inflation returns, the money that "might have paid tuition in 1988 may not even buy books when today's toddlers are ready for college," Anderson says.

But these bonds may be as good a buy as any for busy working parents. "How much time and how much energy do you have? Here you make a judgment once and, on average, I think, have a pretty good chance of getting a favorable return," says Richard Kolhauser.

The bonds also have the advantage of flexibility. They can be sold before maturity if you need the money.

STATEWIDE TUITION GUARANTEES
The most innovative programs are those that promise to pay college tuition no matter how much it increases. Sponsored by state governments, these guarantees are usually good at any public college in the state of purchase—and most are restricted to state residents. Just three states—Florida, Michigan and Wyoming—have such programs in place now, but other states may follow suit.

Under the Michigan plan, which is considered a model, parents can pay for one year of college or four. They can pay the entire lump sum up front, or arrange a monthly payment plan. Parents can buy a tuition guarantee and use it at any public college in the state, from a local community college to a major university. The price of the guarantee varies depending on the type of school the parents think their child will choose. The Valencics invested $7,600 to cover the full four years of tuition at the prestigious University of Michigan.

The IRS has ruled that students will have to pay federal income tax on the "profit" (the difference between what parents paid in and the actual cost of tuition) when that tuition is finally paid. This could mean paying taxes on as much as $5,000 a year.

Clearly, the advantage of these plans is security: The Valencics now know that college tuition is taken care of. And because of that, tuition-guarantee programs are quite popular. Michigan was overwhelmed by applications—82,495 in the initial five-day application period.

But some observers think the guarantee plans may be overpriced. Loren Hart, former chairman of a subcommittee of the Consortium on Financing Higher Education, a group investigating college costs, says, "A guarantee plan is like insurance, and all insurance carries a price." If inflation of college costs slows, the Valencics will have overpaid for tuition.

The biggest concern about these plans, however, is their geographic inflexibility. Parents are betting on their children attending a state school. Michigan and Wyoming will refund the investment with some interest if the child attends a private college, goes to an out-of-state school or decides not to go to college at all. But Florida won't.

Tuition-guarantee plans are popular, but are they overpriced?

"What if your son or daughter turns out to be a mathematical genius who should go to MIT? Parents will end up with a large tuition bill and lose out on their original investment," argues Richard Anderson of the Forum for College Financing. "It's a travesty," he says.

How It Adds Up

Using a payroll-deduction plan to put away small sums on a regular basis can produce surprising results. At 6 percent, the current minimum rate guaranteed by U.S. Savings (EE) Bonds, here's how much you'll have when your child is ready for college if you start to save now:

Child's Age Now	Value at age 18 based on monthly allotments of: $50	$100
1	$17,356.08	$34,712.16
6	$10,328.96	$20,657.92
10	$6,025.72	$12,051.44
12	$4,226.88	$8,453.76

INDIVIDUAL COLLEGE PROGRAMS
A handful of individual colleges offer their own tuition-guarantee programs. Indiana University recently announced a plan, for example, that allows parents to buy "Guaranteed Tuition Certificates," which are good for a certain number of credit hours at any of the university's eight campuses. At current tuition rates, the minimum initial purchase of $1,000 (subsequent purchases may be as low as $200), may be exchanged for 15 credit hours when the child is ready for college.

Single-college plans are, of course, the least flexible choice of all. Some colleges refund payments if the child goes elsewhere, but some refund principal only, with no interest, if the child does not attend that college.

CERTIFICATES OF DEPOSIT You can use certificates of deposit at any bank to build up your college savings. But if you want to plan your payments in a very exact way, you might consider "College-Sure" CDs offered by the College Savings Bank of Princeton, New Jersey. These certificates of deposit are specifically designed to keep pace with inflation in college costs. Parents select the college or type of college they think their child is likely to attend, then buy a CD to meet those needs. A student planning to enter Rutgers University in New Jersey in 2001, for example, would need a total of $114,493 for all four years, according to the bank's calculations. A parent of a five-year-old could meet these costs by making a $5,000 initial deposit, then adding $322.83 a month.

The advantage: certainty. "With it, you're guaranteed to have the money when the kid is ready for college," says

Check Your College Savings Plan

Before you enroll in a tuition-guarantee program or buy a college savings bond, find out:

1. Just what is covered? Tuition-guarantee programs generally cover only tuition, not room and board, although the Wyoming plans include room and board, and some individual colleges and the state of Florida offer optional room and board guarantee plans. With savings bonds, you can use the proceeds without restriction.

2. When can I participate? You can buy EE bonds or CDs at any time, but state savings bonds and tuition-guarantee programs have specific application periods. Watch your newspaper or contact an investment broker or the appropriate state office (your local librarian can provide specific information for your state).

3. Can I get my money back if plans change? With interest? State savings bonds can generally be sold, although the amount received may fluctuate with market conditions. Tuition-guarantee plans vary; some return only your original deposit less an administrative fee, while others return the deposit plus interest. —G.W.

SAVE FOR COLLEGE

Peter Roberts, president of the College Savings Bank. The CDs are covered by federal deposit insurance.

The disadvantages? Penalties for early withdrawal range from 10 percent of principal in the first three years to 1 percent in the last year. The interest is taxable each year, even though it is reinvested and doesn't reach your pocket. And, of course, guarantees don't come free. The CDs are priced above today's cost of college, but yield 1 percent to 1.5 percent below the college inflation rate.

OTHER OPTIONS Parents who are astute investors may well do best on their own. Kimberly Kolhauser's Illinois bond, for example, will yield 7.3 percent. In some states, parents could buy a high-quality taxfree municipal bond yielding about 8 percent.

Zero-coupon Treasury bonds are also a good bet. These bonds, backed by the U.S. Treasury, are one of the safest investments around. They are sold by stockbrokers, and vary in price, depending on the date they mature. In early 1989, you can buy a zero coupon for $401 that will be worth $1,000 in 1999. This means the bond will yield 8.85 percent interest.

But it takes time, as well as know-how, to manage investments wisely. If "doing it once" and letting the experts follow the market appeals to you, you have a lot of company. As Larry Valencic says, "We looked at many options to pay for Joshua's college education—doing it ourselves, es-

Zero-coupon Treasury bonds are one of the safest options.

tablishing an annuity. But with any of these plans, you have to discipline yourself and make sure you put the money away. You have to follow the market. With the Michigan tuition program, you do it once and it's over." ■

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SCHOOL AGE

College students are getting older. According to the College Board, more than six million students—45 percent of those enrolled in American college programs today—are 25 and up, an age-group that is expected to constitute over half the student body within the next decade. As the number of older students has increased, so have the demands for on-campus child care, flexible course schedules to accommodate full-time jobs, and more aggressive job counseling and placement.