Paying for Private College Tuition with a Guaranteed Plan

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Last Issue I discussed student loan repayment strategies. This issue—just in time for the back-to-school sales—is about helping your child or grandchild avoid a lot of student debt. In this era of volatile financial markets and low-interest rates, saving for college is a daunting task, especially for kids entering school within the next few years. The College Board reports that tuition has continued to increase an average of 5% per year for the past 10 years.

To make matters worse, public higher education institutions have increased their costs and class sizes, while at the same time decreasing available scholarships and course offerings. As a result, private colleges and universities are seeing an increase in enrollment.

But there are alternatives that can help you plan and save with a high degree of certainty. They are called pre-paid tuition plans. Some states, such as Washington and California have one for their residents. The downside is that they must be used within those states and only state residents can use them. Not a good choice when your cute toddler turns 18 and wants to go out of state.

But there is an attractive pre-paid tuition plan for parents who want to send their children to a private college or university, but don't know which one yet. It's called the Private College 529 Plan. It has all the tax advantages and rules of a regular 529 savings plan, but regardless of investment results, it pays tomorrow's tuition and mandatory fees at many private colleges at today's prices, guaranteed.

The Plan is sponsored by the Tuition Plan Consortium, LLC, a not-for-profit organization of over 270 private colleges and universities throughout the United States. The participating schools include research universities, liberal arts, science and engineering, religiously affiliated, women's colleges, and historically black schools. Here in the Northwest, they include Willamette, Lewis and Clark, Reed, Linfield, Seattle Pacific, George Fox, University of the Pacific and more. Other notables include Stanford, Notre Dame, Duke, and MIT, for example.

How does it work?
The plan is structured as a pre-purchase of tuition and not as an investment. Thus, it eliminates the need to select investment options, follow financial markets or worry about a market downturn. ***When you make a contribution to the plan, you are purchasing full or partial tuition certificates at today's price that may be redeemed at any participating school for up to 30 years.*** Every July 1, the participating institutions publish their fees for the upcoming year, and then average them to create the price of a certificate. A lump sum purchase may buy one or more certificates, or smaller payments of as little as $25 buy partial certificates. Each year the price of the certificates increases with the average cost.

You or the beneficiary do not need to select a college in advance because you can use your certificates at any participating college when the time comes. However, you can sign up to track five colleges and their annual costs, which can give you a good idea of how much progress you are making toward your goal and how much you are saving in potential costs by participating now.

Like a regular 529 plan, there is no tax on the assets in the plan, and none on the withdrawals for college tuition. Also, in both plans, you can change beneficiaries, anybody can contribute to one, and you can withdraw funds tax free if you receive a scholarship. The contribution limits are similar.

Key Differences between the Private College 529 and a Traditional 529 Plan

Features	Private College 529 Plan	Traditional 529 Plan
Uses	Only for tuition and mandatory fees	"Qualified Expenses," including tuition, books, room and board, travel, etc.
Contributions purchase:	Tuition Certificates	Shares of portfolios, resembling mutual funds
Investment Options	None	Many
Investment risk	Assumed by the colleges	Assumed by the participant
Fees	None-assumed by the colleges	Fund management expenses
Potential "upside" or savings by participating	Depends on the amount tuition costs increase	Depends upon investment results
Plan Sponsor	Tuition Plan Consortium, LLC	Various States
Participating institutions	270 private colleges	All accredited post-secondary institutions
Refunds if not used for college (Note: in both cases taxes on the gain and a 10% penalty apply if not rolled over to another beneficiary)	Net investment performance of the trust fund, with a maximum loss of 2% per year or a maximum gain of 2% per year.	The account balance
When can they be used?	Not less than 36 months from the purchase of a certificate	Immediately
Tax-free rollovers permitted?	Can be rolled to traditional 529 plan. Value is net investment performance of the trust fund, with a maximum loss or gain of 2% per year.	Can be rolled to the Private Plan. The market value purchases tuition certificates at the current price. May be state income taxes, depending on state.
Can be used for graduate school or trade schools?	No	Yes
Guarantees admission to any participating college?	Absolutely not	NA

Since the Plan assumes all the costs of investment management and administration, 100% of your contributions go toward the purchase of the certificates. Currently, the Tuition Plan Consortium, LLC delegates those responsibilities to Oppenheimer Funds. The participating colleges assume the investment risk. In a regular 529 plan, the amount of college you can purchase depends upon how much you have invested and how well the investments have performed. That may or may not be a good thing. In the Private College 529 Plan, the amount of college you purchase depends upon how many tuition certificates you have accumulated.

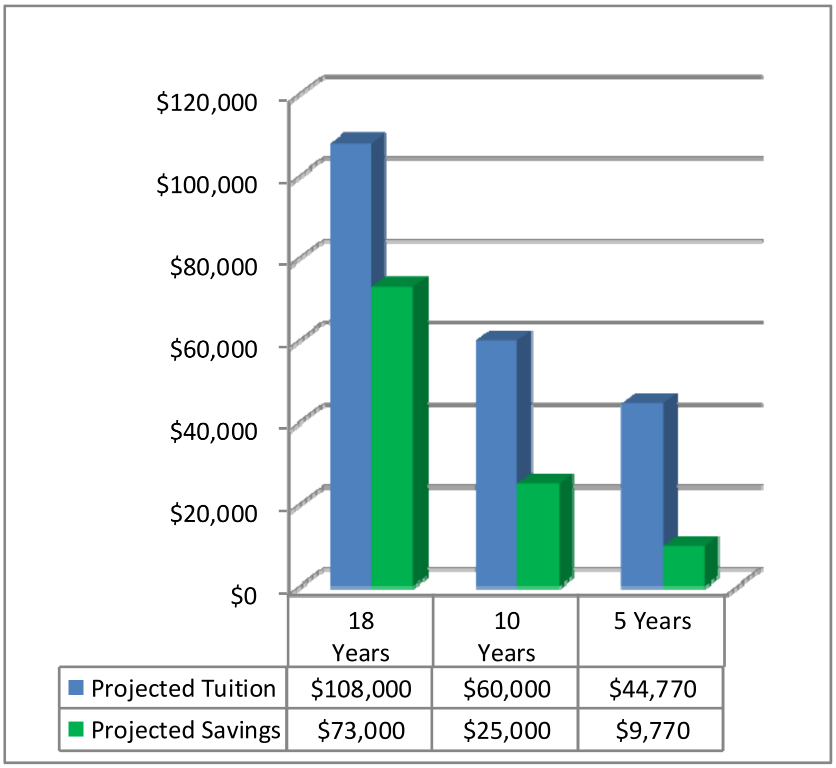
One of the negatives of the Private Plan is that it does not provide for room and board, travel, books, computers, and non-mandatory fees. If your child earns a scholarship designated toward tuition, the accumulated certificates cannot be used for those other expenses. However, the certificates can be redeemed tax free up to the amount of the scholarship. ***So a good strategy—if you can afford it—is to contribute to the Private Plan and a state-sponsored 529 plan.***

Likewise, if your child attends a public college or one that is not a member of the consortium, the certificates cannot be used. However, the balance (give or take the 2% variation mentioned in the table) can be rolled to a traditional 529 plan and then used. Or in the balance could be assigned to another family member, as defined by the federal 529 rules. The new beneficiary gets the benefit of the lower-priced tuition certificates purchased earlier.

You can learn more about this alternative by going to www.PrivateCollege529.com.

No matter which method—the Private 529, or a state-sponsored 529—the important thing is to contribute early and often. ***But helping your children or grandchildren with college needs to be put into the context of your overall finances, including your own retirement funding.*** Like high school graduation, your retirement will arrive quicker than you will think.

Private College 529 Plan
Projected Annual Tuition and Tax-Free Savings
(Assuming $35,000 per year today growing by 5% per year)*



**Source: College Board, Trends in College Pricing, 2010.*

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