

How Can I Save for My Child's College Education?

Once you've determined how much it could cost to send your children to college, your next prudent step is to develop a systematic investment plan that may help you to accumulate the necessary funds.

What are your funding options? Which would be appropriate for your situation? We've listed several below, along with a brief description of each.

Universal Life Insurance

Universal life insurance policies build cash value through regular premiums and grow at competitive rates. These policies carry a death benefit. In addition to providing cash to your heirs in the event of your death, this death benefit gives universal life insurance policies their tax-free status. Money can usually be withdrawn from these contracts through policy loans, often at no interest. These withdrawals may reduce the policy's death benefit.

Zero-Coupon Bonds

Zero-coupon bonds represent the ownership of principal payments on U.S. government note or bonds. Unlike traditional bonds, zero-coupon bonds make no periodic interest payments. Instead, they are purchased at a substantial discount and pay face value at maturity. The value of these bonds is subject to market fluctuation. Their prices tend to be more volatile than bonds that pay interest regularly. And even though no income is paid, the inherent interest is still taxable annually as ordinary income.

Mutual Funds

Mutual funds are established by an investment company by pooling the monies of many different investors and then investing that money in a diversified portfolio of securities. These securities are selected to meet the specific goals of the fund. The value of mutual fund shares fluctuates with market conditions so that, when sold, shares may be worth more or less than their original cost.

Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

Independent College 500-Indexed Certificates of Deposit

The I.C. 500 is the College Board's index of college inflation based on a survey of the costs at 500 independent colleges and universities. I.C. 500-indexed Certificates of Deposit are a relatively new funding vehicle offered by a few savings institutions. Their rate of return is linked to the I.C. 500 index.

Section 529 Plans

Section 529 Plans are also known as Qualified Tuition Plans. These state-sponsored and college-sponsored plans offer higher contributions than Coverdell IRAs along with tax-deferred accumulation. Once withdrawals begin, they are tax exempt as long as the funds are used to pay for qualified higher education expenses.

As with other investments, there are generally fees and expenses associated with participation in a Section 529 savings plan. In addition, there are no guarantees regarding the performance of the underlying investments in Section 529 plans. The tax implications of a Section 529 savings plan should be discussed with your legal and/or tax advisors because they can vary significantly from state to state. Also note that most states offer their own Section 529 plans, which may provide advantages and benefits exclusively for their residents and taxpayers.

Before investing in a 529 savings plan, please consider the investment objectives, risks, charges, and expenses carefully. The official disclosure statements and applicable prospectuses, which contain this and other information about the investment options and underlying investments, can be obtained by contacting your financial professional. You should read this material carefully before investing.

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