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Expert Offers Parents Ways To Save For College

Financial Adviser Explains Options

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BOSTON -- Tough economic times have forced a lot of families to cut back, but many parents still hope to find ways to put money aside for their children's college education.

NewsCenter 5's Bianca de la Garza reported that there are ways to make the most of an investment and avoid costly tax-pitfalls.

Newton Financial adviser Dana Levit urges clients to pick more than one saving method. Her favorites include 529 plans and Roth IRAs. Both grow tax-deferred, but 529 plans are only for secondary education.

You can change beneficiaries, but if none of your children goes to college, you'll pay penalties when the money comes out.

Money in a Roth is yours for spending any way. There is a \$5,000 maximum contribution per person, but children can have an account.

"So if a child is working at McDonald's, parents can take it and open up an account for them. That money can be used for school," Levit said.

Another option is a prepaid tuition plan. It lets you lock inside today's rates, but there can be a downside.

"If your child does not go to school, Massachusetts gets a moderate interest rate," Levit said.

Experts said to avoid common tax pitfalls and not take too much out of a 529 plan. For example if tuition is \$15,000, but your child has a \$2,000 scholarship, you only need \$13,000.

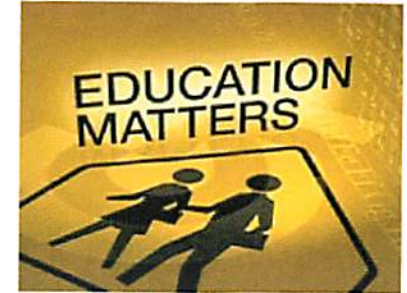
Also, watch credits on your tax return.

"So if you're taking tuition, make sure you or your accountant don't take that deduction on your tax return or else you've just made your growth potentially taxable," Levit said.

Many of states have 529 plans open to anyone, and unlike Massachusetts, some offer tax credits every time you contribute. You do have to be a resident of that state to be eligible.

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