Tax-friendly plan helps you save

By David H. Lillard Jr.

The recent news headlines concerning the increase in college tuition for Tennessee state colleges and universities allows the Tennessee Department of Treasury to shed light on an issue facing not only Tennessee families but families across the country.

According to the College Board, the national average for tuition and fees at a four-year public university for the 2009-10 academic year is $7,020 — up 6.5 percent from the year before. Average tuition at a private university is almost four times as much.

This news can be unsettling for parents planning to send children to college, but it should be less unsettling for parents who started saving early. Getting an early start on saving for college can make future college costs easier to afford.

There are many college savings vehicles available to parents, grandparents, or other relatives and friends who want to get a head start on saving for a child's college education. One of those options is the Path2College 529 College Savings Plan, which is a Georgia state-sponsored program promoted by the State of Tennessee for Tennessee residents to provide families with a tax-advantaged method for saving money for college expenses.

Much like 401(k) plans provide people with a tax-advantaged way to save money for retirement, 529 plans help families prepare for future higher education costs. Any earnings are tax-deferred, and money withdrawn from a 529 plan is tax-free, provided it is used for qualified education expenses. Plan participants can choose from seven investment options, ranging from conservative to aggressive, and accounts can be opened with as little as $25.

More information about the Path2College 529 College Savings Plan is available at: www.Path2College529.com.

HARNESS THE POWER OF TIME

Whether people choose to invest through that or some other program, it is important that they start saving as early as possible to take advantage of the benefits of compound interest. The great news is that the more a person invests early, the more opportunity the money has to grow. Even saving a small amount over time can make a huge difference.

Consider this: Saving as little as $50 every month for five years before college ($3,000 investment) would return $489 if the money appreciated at a 6 percent rate of return for a total return of $3,489. Earnings would be even greater if a family saved $50 each month after the birth of a child for an 18-year period ($10,800 investment). With the same rate of return over the 18-year period, the investment income would be $8,568 with a total return of $19,368.

Benjamin Franklin was quoted as describing compound interest as "the Eighth Wonder of the World." Albert Einstein called compound interest "the most powerful force in the universe."

Those are pretty strong endorsements for trying to leverage compound interest to help cope with rising tuition costs.

The advantages of starting to save early and regularly are clear. But even though saving early is important, the decision to start saving, no matter the age of the child, is equally important, because any amount saved helps defray future college costs and may decrease the amount families need to borrow in the future to cover the cost of higher education.

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