

# Wealth News

August 2010

Information from Credit Union of New Jersey and CFS\* to help keep your financial life in balance

## Consumer Sense

### Saving for College

With competition in the job market tougher than ever, it is imperative that today's students realize the importance of a college education. So what can you do now to help them achieve their educational goals?

As many of you know saving for college can be a daunting task. Every year, tuition and fees for private and public colleges increase. According to a recent survey by Fidelity Investments, many respondents called saving for educational expenses "overwhelming." Fortunately, there are a variety of investment options available for your consideration

### Educational Savings Plans

In order to aid families in financing the cost of education, all states now sponsor a college-savings plan, and a handful utilize the prepaid savings plan. Assets in 529 plans grow tax-deferred and distributions to pay for qualified college expenses are not subject to federal taxation.

529 plans are beneficial in that they provide tax deferred growth, and may also offer tax free withdrawals. Once the child reaches college age, funds can be withdrawn tax-free to cover expenses such as tuition, books, supplies, and room and board. One significant benefit of a state-sponsored college savings plan is that it can be used to fund education at any accredited college or university.

You might be asking yourself, what if my child doesn't go to college? If this occurs, you have a couple different options. The first option is to transfer the plan to another family member. Funds can be transferred and used by siblings, parents, grandparents and other relatives. The second would be to cash out the plan. Most states assess a penalty of 10 percent of the earnings on any withdrawal that is used for non-educational purposes.

Federal penalties and income tax on the growth of the account may also be imposed. Should the recipient of the 529 Plan die or become disabled, no penalties will be incurred.

Prepaid savings plans operate in a slightly different fashion. Families purchase tuition units for any state college or university at today's prices for the child's future use. Currently, there are only about a dozen states that offer the prepaid plans, whereas every state sponsors at least one college saving plan. One thing to be aware of is that most prepaid plans are tied to specific groups of schools, not the national average.

### Who Can Assist Me?

With all the educational savings options available today, choosing the right one might seem like a daunting task. Now may be a great time to visit your local credit union, and meet with the financial professional for a review.

Source: *Fidelity Second Annual Survey of High School Seniors*, 25 May 2010.

## Have You Read...

**College Savings Plans:** The 529 College Savings Plan, 2E by *Feigenbaum & Morton*. Whether you want to save for your children, grandchildren, spouse, friend or yourself, The 529 College Savings Plan is the way to go. This book guides you through the savings process, cuts through the legal and financial language and gets you focused on college savings.

### Interested in Learning More?

I specialize in helping people maintain a healthy financial balance and discover smart money strategies.

Call me to set an appointment to review your investment objectives, and to discuss any questions you might have. I look forward to speaking with you!

**Al Barbato, Investment Representative**  
609-323-2056

Do you have a topic you'd like to see covered in future Wealth News newsletters? Email your questions and comments to me at: [abarbato@cunj.org](mailto:abarbato@cunj.org)

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