

5 Ways to Save for College

🔗 key.com/personal/financial-wellness/articles/5-ways-to-save-for-college.html

Teresa Meek, December 2016

Finding different ways to save for college grows in importance every year. Especially considering that those higher education costs are in addition to the \$245,000 you'll spend to raise a child to age 18, according to the [USDA](#)

But with a little planning and discipline, you can make big strides toward paying for college while still leaving enough in the bank to cover the everyday expenses on your plate.

Here are some tips to help you get started.

1. Start Early

Starting an investment account when your children are young lets you take advantage of the miracle of compounding interest. For example, according to the [Financial Industry Regulatory Authority](#) (FINRA), "if you save \$200 a month at a 6 percent annual rate of return for your newborn child, you will have more than \$76,000 for college when she turns 18."

2. Estimate Expenses

According to [College Board](#), the average cost for tuition and fees for the 2015-2016 school year was \$9,410 for in-state students at public universities, \$23,893 for out-of-state students and \$32,405 at private colleges. Use a [college savings calculator](#) to determine how much you need to save each year to meet your goal.

3. Consider a 529 Plan

One of the most popular ways to save for college is through a [529 savings plan](#). There are two types: a college savings plan and a prepaid tuition plan. Investment accounts are great because they give you a convenient way to grow your child's college savings tax-free. Most states require a \$250 initial contribution, and monthly payments are as low as \$50 after that.

College Savings Plans

With college savings plans, you can save money without specifying where your child will attend school. The plans can be used for public or private colleges, and some have no residency requirements. Another bonus is that money can be used to cover housing, books, computers and educational software, as well as tuition.

Prepaid Tuition Plans

Prepaid plans allow parents, grandparents or others to prepay tomorrow's tuition at today's prices for eligible colleges; however, most don't cover room and board or other expenses. If your child decides not to attend the school you chose, you can use the money for another institution, but you'll probably lose the accumulated interest and may be charged a penalty. Alternatively, the IRS allows you to roll the money into a sibling's account without penalty.

4. Consider a Roth IRA

Another way to save for college is through a Roth individual retirement account (IRA). The money you deposit into a Roth has already been taxed, but after that it grows tax-free. The funds are not taxed when you make withdrawals for college expenses such as tuition, housing and books. If your child decides not to attend college, you can still use the savings for your retirement. Using a Roth IRA to fund college isn't for everyone, as the plans have strict contribution limits. [Forbes](#) reports it could affect a student's ability to get financial aid.

5. Automate Your Savings

No matter how you choose to save for college, you should set up [automated bank transfers](#) to ensure that your good intentions become a reality. Automated transfers help you live within your means at a time when family demands make it easy to get sidetracked.

Figuring out the best ways you can save for college can sometimes feel like a story with no end. But if you plan ahead and contribute little by little to different investment options, you can get it done.

It's important to your child's future, so why not start today?

This information and recommendations contained herein is compiled from sources deemed reliable, but is not represented to be accurate or complete. In providing this information, neither KeyBank nor its affiliates are acting as your agent or is offering any tax, accounting, or legal advice.

By selecting any external link on Key.com, you will leave the KeyBank website and jump to an unaffiliated third-party website that may offer a different privacy policy and level of security. The third party is responsible for website content and system availability. KeyBank does not offer, endorse, recommend or guarantee any product or service available on that entity's website.



Call Us

1-800-KEY2YOU[®] (539-2968)

Clients using a TDD/TTY device:

1-800-539-8336

Clients using a relay service:

1-866-821-9126



Schedule an Appointment

Talk to a Branch Manager in your neighborhood.

Schedule an appointment now



Find a Branch or ATM