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# Parenting the Preschooler

<http://www.uwex.edu/ces/flp/pp/>

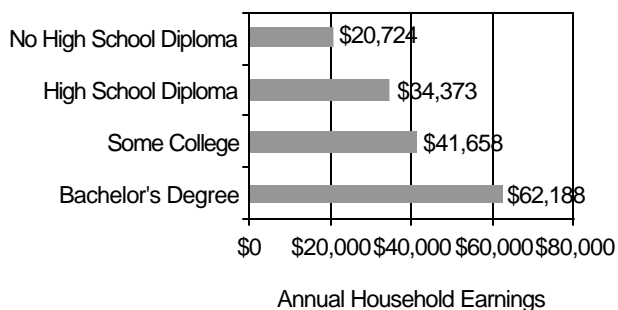
## Saving for College

College seems a lifetime away – after all, your child is only a preschooler. It’s hard to think about setting aside money for ten or more years down the road when you have so many needs now. Yet, as a parent of a young child, time is on your side! Your advance preparation can make a higher education possible for your child.

### College is a Smart Investment

Higher education enriches a young person’s life in many ways. It generates important intangible assets – new ideas, broader experience, cultural awareness, and self-confidence – as well as tangible ones that accompany higher earning power. Dollar for dollar, it’s hard to find an investment that delivers better value than a good education.

### Impact of Education on Annual Earnings



Source: NEFE High School Financial Planning Program, 2001

### Cost of a Higher Education

A college education is a big financial challenge. Costs listed below include tuition, a dorm room, cafeteria meal plan, fees, books, and spending money.

Sample Undergraduate Budgets (average), 2000-2001	
Type of College	Annual Cost of Attendance
2 - year public	\$ 7,024
2 - year private	\$ 14,679
4 - year public (in-state)	\$ 11,338 *
4 - year public (out-of-state)	\$ 16,848
4 - year private	\$ 24,946

Source: 2000 Annual Survey of Colleges, The College Board, New York, NY

\* Resident tuition cost (2001-2002) for UW-Madison is \$3,780.

### Estimate the Amount of Money Needed

The amount of money you need to set aside for a higher education for your child depends on:

- tuition costs for educational institution your child attends
- money already saved in an education fund
- number of years you have to save
- anticipated income the child will earn from employment
- scholarships, loans, and grants available to your child
- inflation and interest rates on your investments

You can do a paper-and-pencil estimate of your child's college costs by estimating the cost of college expenses, how many years you have to save, identifying the appropriate inflation factor. For example, if the school you select costs \$11,000/year, the four year total will be

College Cost Inflation Factors (6%)	
Years	Factor
10	1.79
11	1.89
12	2.01
13	2.13
14	2.26
15	2.39

\$44,000. If your child will enter college in 10 years (\$44,000 x 1.79 inflation factor) the cost will be \$78,760. To set a meaningful goal, decide what portion will come from your future savings. Once you have that number, divide by the number of years until your child graduates from high school. For example, suppose you plan that half of the four year amount will come from savings (\$78,760 ÷ 2 = \$39,380). Divide that amount by the number of years until your child graduates from high school (\$39,380 ÷ 10 = \$3,938) to get the annual savings needed. To determine the monthly amount to save, divide by 12 (\$3,938 ÷ 12 = \$328). (A calculator is available for figuring savings amount at [www.edvestonline.com](http://www.edvestonline.com).)

## Start Saving Early

The best way to assure that your child can afford college is to save for it. If you set aside \$50 per month in a 2% passbook account from the time of birth, by the time your child is 18 years old, you would have more than \$11,000. Any amount you save will help your child when the time for college comes.

Many innovative college savings programs are designed to meet the savings needs of the average family. They represent positive, productive, and affordable options that can ensure the education of our most precious resource: the children. The following table summarizes features of savings programs. For more information on any of the programs go to these websites:

<http://www.edvestonline.com>  
<http://www.savingsbonds.org>  
<http://www.savingforcollege.com>

### Sources:

High School Financial Planning Program. National Endowment for Financial Education. 2001.  
[www.collegesavings.org/](http://www.collegesavings.org/) (2001)  
[www.edvestonline.com](http://www.edvestonline.com) (2001)  
[www.529collegesavings.com](http://www.529collegesavings.com) (2001 GunnAllen Financial)  
[www.savingsbonds.gov](http://www.savingsbonds.gov) (2001)

### College Savings Options

	529 College Savings Plan	Education IRA	UGMA/UTMA	US Savings Bonds
<b>Income Limitations</b>	None	Annual Gross Income limits apply	None	Annual Gross Income limits apply
<b>Maximum Yearly Contribution Per Beneficiary</b>	\$50,000 in the first year of a 5 year period without exceeding the annual federal gift-tax exclusion	\$2,000	\$10,000 without exceeding the annual federal gift-tax exclusion	\$30,000 (\$60,000 for husband and wife holding bonds as co-owners)
<b>Account Earnings</b>	Tax deferred	Tax free if used for qualified expenses	Taxable	Tax exclusion for qualified educational expense
<b>Investment Options</b>	Ready-made portfolios	Wide range of securities	Wide range of securities	Series EE or I issued since January 1990
<b>Qualified Use of Proceeds</b>	Any accredited post-secondary school in the US	Any accredited post-secondary school in the US	Unlimited - Ownership transfers to child at age 21	Tuition at accredited post-secondary school in the US
<b>Taxation of Qualified Withdrawals</b>	Tax free, when used for qualified educational costs	Tax free	Portion may be federal tax exempt: some/all income may be taxed at child's rate	Tax exclusions when used for qualified educational expenses

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