June 26, 2015

How Much Should I Save for College?

Q. I'm saving for retirement and college. I'm 45, and my kids are 13 and 14. I want to fund the equivalent of a state school for four years. How can I figure how much more I need to save and figure out what interest rate I need? I have two 529 Plans with $65,000 and $53,000 saved.

A. The rate of return you need on your college investments is important, but it's not the only thing you need to consider for a smart college financing plan. With room and board in the time frame that you are looking at, you will probably face bills of $30,000 per year for a New Jersey state school, said Jerry Lynch, a certified financial planner with JFL Total Wealth Management in Boonton. You have four to five years before college starts, and funding for eight or nine years, he said.

If you're estimating $120,000 as the total cost per child, for your oldest, who has $65,000 in 529 Plans, you'd need to save an additional $485.45 per month for eight years at 4 percent interest, Lynch said. For the student who has a balance of $53,000, you'd need to save $514.69 per month for nine years at 4 percent interest, he said. "I use 4 percent as most of the 529 plans get very conservative as you get close to when the child will go into college," he said.

Claudia Mott, a certified financial planner with **Epona Financial Solutions in Banking Ridge**, said you've saved about 42 percent of what you will need. She's using an annual cost for a state school of $26,000, with inflation, too. According to the College Board, college costs rose an average 2.9 percent in the last year, but states that the 10-year average rate of increase is 5 percent, she said. To be on the safe side, she used the 10-year average inflation rate, which created a total college cost of approximately $136,000 for your eldest child and $143,000 for the younger one. She then created a table to show three different return scenarios, which should give you another look at how much you'll need to save to reach your goals.

Oldest Child	Current Savings: $65,000		Amount Needed: $136,214
		Savings Needed	
	Return %	Annual $	Monthly $
Moderate	7.00	7,938	659
Conservative	5.00	10,475	880
Stable Value	3.00	13,224	1,112

Youngest Child	Current Savings: $53,000		Amount Needed: $143,024
		Savings Needed	
	Return %	Annual $	Monthly $
Moderate	7.00	8,893	743
Conservative	5.00	11,219	944
Stable Value	3.00	13,753	1,157

Mott said unfortunately, it is hard to guarantee the returns for most 529 plans because they are invested in a combination of stock and bond mutual funds. "If your children's accounts are in an age-based fund — one which becomes more conservatively invested as they grow older — then the returns may be lower over the next few years as they approach graduation," she said. Age-based 529s, like target-retirement funds, adjust the percentage between the stock and bond funds so that by the time children are sophomores, there is very little invested in stock funds and most of the account will be in bond funds and short-term investments like cash.

"While the idea is to protect the principal of the account by limiting exposure to the stock market, bond funds can experience declines in periods of rising interest rates," she said. "It's important to keep this in mind as your children get closer and closer to graduation as you may want to look at ways to eliminate the risk that the accounts could lose value."

One alternative to look into when your children reach age 15 or 16 is a stable value 529, which Mott said guarantees a rate of return net of fees and has no risk of principal loss. Another options is to use Certificates of Deposit (CDs) of varying maturities to secure the value of the 529 account and receive a small amount of interest income as well.

With two children, you may want to consider underfunding the 529 for your youngest, Mott said. "If your eldest receives scholarships or other tuition assistance and there is a balance left in that 529 account, it can very likely be handed down for your youngest to use," she said. "It is important to check with the 529 administrator to be sure you understand how this process works."

Mott said if there’s money left in the account upon graduation, the funds could be withdrawn for a non-college expense, but there would be a 10 percent penalty and potential income taxes on part of the withdrawal. You may also want to set funds aside outside of the 529s for non-qualified costs, such as test prep courses and the exams themselves, along with trips to visit schools, Mott said.
“Outfitting a dorm room, spending money, and possible travel expenses all add up for two kids over four years,” she said. “It’s a good idea to think about how these might be shared or covered and where that money is going to be set aside as well.”

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