

Investing for Your Child's Education (College)

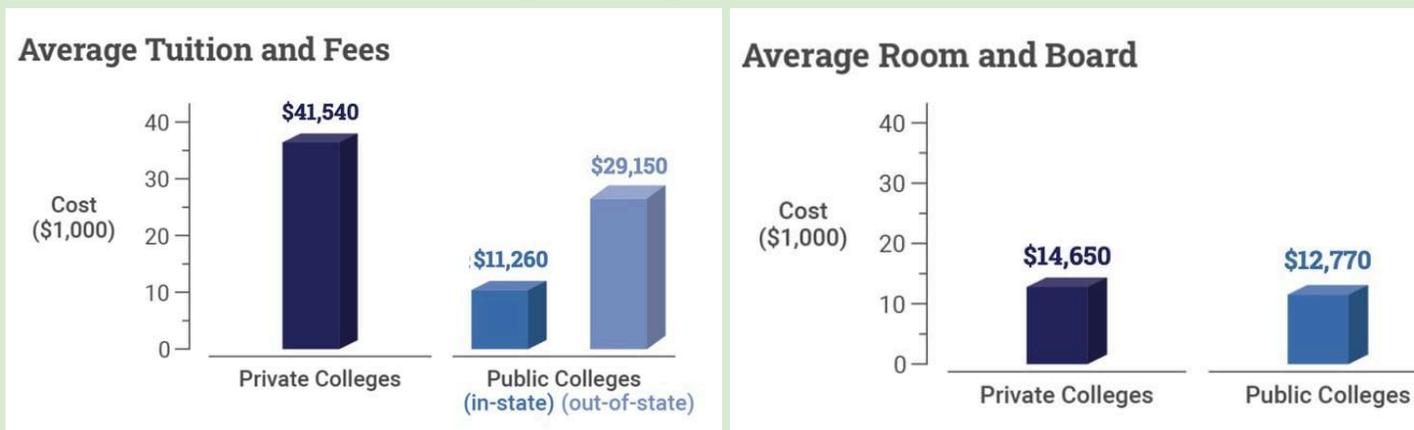
This document is designed to give an overview of educational savings options for parents and grandparents of children living in Idaho and Wyoming. As with all savings, starting early is a huge advantage - don't wait. Do something about it today. Please reach out if you have questions or are interested in coaching: trevordeighton@gmail.com. This document is a detailed section of a more comprehensive [Introduction to Financial and Retirement Planning Document](#).



For most parents, starting a 529 Plan is the best way to save for college. While the rules of 529 Plans can be complicated, opening an account and starting to save is NOT complicated. Read on to learn about opening a 529 Plan and start investing in your child's future.

College Cost Overview

Average College Costs 2023 - 2024



Source: College Board, [Trends in College Pricing and Student Aid, 2023](#).

The primary reason why college feels so expensive is that college costs have been rising faster than inflation for many years. Your child's college education will cost much more than your college education even when you adjust for inflation. Knowing exactly what college will cost in the future is impossible and predicting what college costs will be in the future is challenging due to the large number of variables. *However, it is very likely that for a baby born today who attends the University of Wyoming or an Idaho university as an in-state resident for four years will pay \$200,000 including tuition, room, board and fees. A target savings rate of \$500 per month for 21 years (from birth to graduation) would be necessary to reach that goal.*

The [529 College Saving Calculator](#) at SavingForCollege.com is a useful tool to both estimate college expenses and save for them.

529 Plan Overview

A 529 College Saving Plan is a tax advantaged plan designed to be used for higher education but it can be used for K-12 education, as well. With a 529 Plan, a grandparent or parent (or friends or even

the student, if over 18) contribute after-tax money that then grows free of federal and state taxes as long as it is withdrawn for “qualified educational expenses”. If a child decides not to go to college or doesn’t spend all of the money, the account can be transferred to another student. Some details:

- Anyone can open a 529 Plan and designate a beneficiary (future student) even if you are not related to the student.
- Many states including Idaho (but not Wyoming) offer state tax benefits (deductions or credits) for contributing to a 529 Plan.
- The contribution limit per beneficiary for 2024 is \$18,000 per individual or \$36,000 per couple. You can contribute the maximum in any or every account you contribute to.
- 5 year Gift Tax Averaging “Super funding”: A contributor is allowed to make up to five years of contributions all at once, contributing up to \$90,000 (\$180,000 for couples) into a 529 Plan. An initial investment of this magnitude could fully fund 4 years of in-state room board and tuition with no further contributions.
- 529 Plans are counted as assets on FAFSA forms if owned by a student or parent and may potentially reduce financial aid eligibility. If owned by a grandparent, other family member or friend they are not counted as an asset for FAFSA but distributions will be counted as income.

Roth IRA as a College Saving Account

Using a Roth IRA (individual retirement account) as a vehicle for college saving can be a good strategy but has some limitations.

- Contributions are made post tax.
- No states offer any tax deductions or credits for Roth IRA contributions.
- Contribution limits are much lower. In 2024, \$7,000 per year or \$8,000 per year over 50
- Contributions can be withdrawn at any time but investment growth can not be withdrawn until age 59 ½.
- You may not open a Roth IRA account in anyone else's name.
- Other people can not contribute to your Roth IRA account.
- If you use a Roth IRA for a child's college education then you are losing a potentially valuable savings vehicle for your retirement.

Idaho

Idaho has an excellent 529 College Saving Program - IDeal (idsaves.org).

- Tax incentives: Idaho allows 529 Plan contributions up to \$6,000 for an individual filer or \$12,000 for married filers to be deducted directly from their state taxes. The Idaho state tax rate is 5.8% so this is an immediate 5.8% return on your savings investment.
- Account fees are low and investment fund fees are reasonable.
- A variety of investment options including “set it and forget it” funds that start out with investments that are “growth oriented” (aggressive) and rebalance to more conservative investments the closer to the child's “enrollment date”.

Wyoming

Wyoming no longer has a state sponsored 529 Plan (it was ended in 2006) but you can contribute to any other state's plan. Nevada has good low cost options especially the Vanguard 529 Plan - [Nevada's College Saving Plans](#). If you live in Wyoming you will not get a state tax deduction but there are still many reasons to save in a 529 Plan for your children's education.

American Opportunity Tax Credit

If your child is going to school or about to be going to school then you should be aware of the American Opportunity Tax Credit - [more info here](#). It allows up to \$2500 of tuition as a tax credit. The first \$2,000 is a 1 for 1 credit. The last \$500 is a .25 to 1 credit. So for most families paying for college it makes sense to pay \$4,000 out of pocket and use the savings in a 529 Plan for the rest.