

PRIVATE COLLEGES NOW OFFER PREPAID TUITION PLAN

Families with ambitions of sending their children to private college have a new funding option available: Starting this September, a consortium of private colleges is offering a prepaid tuition plan similar to tax-advantaged state-sponsored prepaid plans, but with a few wrinkles.

Like state plans, you essentially lock in a percentage of tomorrow's tuition costs at today's prices. Say you have an eight-year-old child and you buy a \$15,000 "certificate" this fall with the consortium. That certificate might currently buy half a year's worth of tuition at Private School A or a full year at Private School B. If your child enrolls ten years from now at Private School A, that certificate guarantees half a year of paid-up tuition, or a full year's worth at Private School B, regardless of how much the cost of that school's tuition has risen during the decade.

Exactly what percentage of a school's tuition a given investment amount will buy depends on the cost of a particular school's tuition, the age of your child at the time of investment and the discount the school gives. Members in the consortium must give a discount of at least half of a percent, though the expected average will be closer to two percent.

Participants can pay as little as \$25 a month as long as they agree to invest at least \$500 over the next two years, though if you're serious about putting your child through a private college, you'd better be investing a lot more than \$25 a month. Private school tuition for 2002–2003 averaged \$18,273, according to the College Board. Under the private plan, you can contribute up to five times the cost of four years of tuition at the most expensive school in the plan (the highest four-year tuition right now is around \$140,000).

While the certificates are bought with after-tax dollars, you don't pay taxes on the imputed earnings as long as you use the money for qualified tuition expenses. What happens if junior ends up not attending one of the colleges in the program? You can name someone else as beneficiary of the account, or the program will refund your principal, plus or minus no more than two percent annual earnings or losses, depending on how the plan's investments did during your enrollment.

Earnings will remain tax free as long as you spend them on education or roll them into a 529 college savings program; otherwise, you'll pay ordinary income taxes plus a ten-percent penalty on the earnings.

Over 200 schools are expected to belong when the consortium debuts the plan, and as many as 300 may belong within two years. If a school drops out of the consortium, it must honor any certificates bought during its membership. Schools that join the program later must retroactively honor certificates to a limited extent.

So is this a good deal? You'll want to talk to your CERTIFIED FINANCIAL PLANNER™ professional and mull over several points.

- The number of schools in the program is limited, so you'll want to be confident your child will actually enter one of the member schools. A maximum two percent annual return on your refunded investment is not a good return.
- All investments made in a particular year must be left in the plan at least three years before you can withdraw them. For example, all investments made in 2003 can be withdrawn in 2006 and all made in 2004 can be withdrawn in 2007.
- Compare the program against the many alternative college-investing vehicles, including 529 saving plans, Coverdell education savings accounts, taxable mutual funds and custodial accounts.
- The prepaid plan provides a relatively safe return equal roughly to the annual tuition increase (which has been five to seven percent in recent years for private schools). On the other hand, you have the potential to earn significantly higher after-tax average returns with the alternatives—or suffer losses, as many education accounts have in the last three years.
- The program applies only to undergraduate studies, and only to tuition and mandatory fees. Alternative vehicles can cover additional college expenses such as room and board, plus graduate school.
- Prepaid plans count more heavily against federal financial aid than the alternatives, so the program may be most appropriate for parents who don't anticipate significant financial aid.

For more information about the private college prepaid program, which is the only one of its kind in the nation, go to www.independent529plan.org.