

## Education Funding Options

### What Education Funding Options Are Available?

#### **Custodial Accounts**

There may be certain tax advantages to maintaining a separate educational fund in the child's name. By setting up a custodial account under the Uniform Gifts to Minors Act (UGMA) or, in some states, under the Uniform Transfers to Minors Act (UTMA), you can realize any available tax savings and still maintain some control of the funds.

#### **Transferring Funds to Children**

Each parent and grandparent can gift up to \$13,000 in 2011 to each child without any gift tax consequences.

#### **Borrowing**

The primary problem with borrowing is that it adds to the cost of education and may possibly divert funds that are needed to accomplish other important financial objectives, such as saving for retirement. If borrowing becomes a necessity, your child may qualify for a student loan, although that source of college funding may become less available or attractive in the future. In most states, you can take a home equity loan for education purposes and benefit from tax-deductible loan interest.

#### **Education Savings Plan**

You can begin a systematic savings plan today to help finance your child's future education costs. If life insurance is one of your education funding choices and you die prematurely, the death benefit could be used to help fund your child's education. In addition, certain types of life insurance provide a tax-deferred accumulation of cash values. These cash values could serve as a source of education funds, in addition to being available for emergencies or other opportunities (withdrawals and loans will reduce the policy's death benefit and cash value available for use).

#### **Education Tax Incentives**

A variety of education tax incentives are available, including the HOPE Scholarship Credit, the Lifetime Learning Credit, College Tuition Deduction, Qualified Tuition Programs and Education Savings Accounts. In addition, interest paid on qualified education loans may be deductible.

**Note:** The potential impact on the availability of student loans and grants should also be evaluated in selecting education funding options.