Great outcomes. Done well.

Post the recent market downturn, how can you put your college savings plans back on track?

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Whether the economic recovery has officially begun is a subject of debate, but no one can deny that the cost of a college education continues to rise. Like most investments, college savings plans took a hit during the recent downturn. And the resulting credit crisis has narrowed borrowing options. However, depending on how long you have before your children are college aged, there are things you can do to help ensure their dreams and your hopes for their future remain on track.

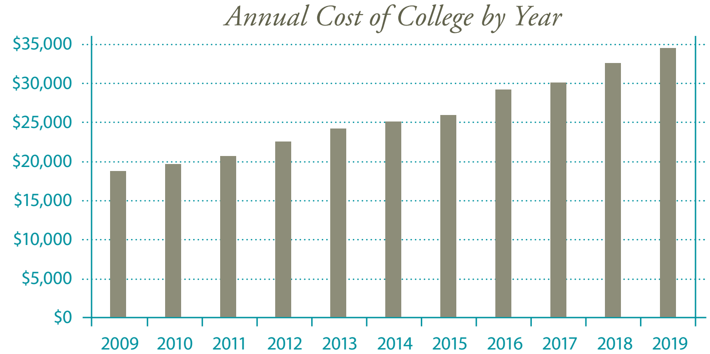
Private lending, particularly in the current environment, should really only be an option of last resort for college funding.

What You Should Know:

1. **Annual tuition increases are a mathematical certainty**

Between 1987 and 2009 US college tuition and fees increased an average of 6.8% annually, outstripping the rate of inflation[1]. And some evidence suggests that the recent financial crisis may have impacted college endowments substantially enough to necessitate an even bigger increase for the 2009-2010 school year.

Annual Cost of College by Year



Even if the 2009-2010 school year doesn't bring a larger-than-average increase in tuition, it is anticipated that the cost of college will continue to rise in the future.

"Based on Archimedes Systems calculations, assuming sustained college inflation at the 2008-2009 rate of 6.4%"

[1] SeekingAlpha, June 23, 2009.

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2. If you have time, consider a 529 Plan

While a drop of 30% in a college savings plan could be a major stumbling block for parents of college-aged children, it may turn out to be a minor setback for parents planning farther out. If you haven't already, consider establishing a 529 Plan. These state-sponsored plans provide a tax-advantaged way to set aside money for the cost of a child's education while taking full advantage of compounding over time.

- Family and friends are all free to make contributions, which may qualify as income tax deductions in many states.
- Contributions grow tax-deferred and are not subject to federal tax upon withdrawal if used for qualified education expenses[2].

Additionally, accelerated gifting techniques for 529 plans offer the option for donors to maximize their contributions in a single year, and could help bridge the gap faster for children closer to college age.

3. Don't overlook federal aid options.

Many families think they're too wealthy to qualify for federal aid. That belief and the sheer size of the Free Application for Federal Student Aid (FAFSA) form may discourage them from filling out the form. However, even if you are ineligible for need-based grants, applying for federal aid opens doors to options like low-interest loans, which you might want or need to use if your child is at or approaching college age now. A few related tips:

- Government-backed loans often have more competitive interest rates and better repayment terms.
- The deadline to apply for federal student aid is June 30, although updates or corrections can be made up until September 15.

4. You might find money in your house.

While reduced property values and tighter credit markets may make borrowing against your home more difficult, for people with significant assets and good credit it could well make the most financial sense. Home equity loans can carry very competitive rates, and interest on home equity loans of up to $100,000 can be tax deductible if the funds are used for education.

Private lending, particularly in the current environment, should really only be an option of last resort for college funding.

What Should You Do Now:

If you have some time, say four years or more before you need to start paying your child's tuition, talk to your financial advisor about a 529 savings plan. If the need is more immediate, fill out the FAFSA form and file it. Regardless of your child's age, you should talk to your financial advisor about which of the above approaches makes the most sense for your specific financial situation. ■

Investors should consider the investment objectives, risks, charges and expenses associated with a 529 Plan before investing. This and other information is available in a Plan's official statement. The official statement should be read carefully before investing. Depending on your state of residence, there may be an in-state plan that provides tax and other benefits not available through an out-of-state plan. Before investing in any state's 529 plan, you should consult your tax adviser.

[2] The earnings portion of any non-qualified withdrawals from a 529 Plan will be subject to a federally mandated 10% penalty and will be taxed as ordinary income to the recipient.