

Prepaid tuition plan? Not such a smart idea!

A top priority for most families is to send their children to college. The main concern for these families is how to pay for it, and which college tuition plan will work best.

I was lucky to be able to graduate from NIU with a gift from my grandmother and the help of my parents. Unfortunately, this type of funding is not available for most people.

In Illinois, currently there are two popular options available to save and pay for a college education. These are the State of Illinois Prepaid Tuition Program and a College Savings 529 Investment Plan. While there are pros and cons for each type of savings plan, the 529 investment plan is recommended by most savvy advisors.

The costs of a college education have risen dramatically, and it is enough to make you sick and angry. Since 2001, U.S. inflation has increased an average of 2.5% per year according to the U.S. Inflation Calculator. Since 2001, the average annual increase in tuition and fees at an Illinois public university has risen 9.96%, according to the 529 website. This statistic may not even include room and board costs. Community college tuition costs in Illinois have also increased at a staggering average rate of 7.19% in the same timeframe.

Is your blood boiling yet? Sorry, but it gets worse--these costs don't even include beer, pizza, or laundry money! Ouch!!

With the ever-increasing costs for a college education, it is now more important than ever that a family starts a savings plan as soon as possible. However, please take plenty of time to consider the potential risks with each plan before you begin.

Illinois Prepaid Tuition Plan

Most financial advisors will tell you that the Illinois Prepaid Tuition Plan is not the recommended plan. Proponents of the Illinois Prepaid Plan may say this is because there is no commission payable to the advisor. However, the facts below tell the true story.

The most serious concerns with a prepaid plan include the following: (1) no control over the funds as the State is making the investments and determining strategy, (2) no transparency as the State does not list the investments in an easy-to-read manner, (3) no guarantees that the prepaid money you contribute will be enough to cover the cost of the college you choose, and (4) limited flexibility, since your options for attending school are better for in-state colleges; benefits will be reduced if an out-of-state college or university is chosen. It certainly makes you wonder if the state-appointed officials running this program have your best interests at heart.

Believe it or not, in March of this year the AP reported that the State of Illinois Prepaid Tuition program now has a shortfall of 20% to 31% in funding, depending on the accounting method used. Doesn't it boggle your mind that a prepaid plan can be short on funds? How is this even possible? Does it increase your faith in our great state?

College Savings 529 Investment Plan

Knowing the facts above, most advisors will recommend a College Savings 529 Investment Plan. The idea behind a 529 investment plan is to prepay for college tuition at today's rates. This method is used to avoid draining your pocketbook when your child is ready to head off to college. The theory is that creating a 529 investment plan will allow you to pay for college now, thus avoiding heading to the poor house at the same time that your child is heading off to college. If you don't have relatives that can be shaken down, this is probably your best bet!

These 529 investment plans have more flexibility as you can choose your investment options and strategy. You can also choose any college or university throughout the U.S. The main concern with a 529 investment plan is market risk, and this is inherent in almost any investment.

Knowing the facts, don't you want a say in where your money is invested? Do you want to determine which risks you are willing to accept? Do you want a plan where you can invest your funds according to your risk profile, with the ability to change? Finally, do you really want to give the State of Illinois any more money to control?!? (We have all seen how well they are doing with our tax money as Illinois is now \$100 billion in the hole.)

The bottom line is that it is imperative to start saving for college as soon as possible.

However, it is also very important to choose the right type of savings plan and manage it on a regular basis. Before any plan is implemented, you should consult with a financial advisor to review the different options that are available.

Keep in mind that a college education is ultimately the best investment you can make in your child's future! Do your homework, and choose the right plan to make this possible.