Saving for a Child’s Higher Education

By Shawn Stroller

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When saving money for a child’s college education, the most helpful and practical advice one can receive is to make use of the available savings accounts and tools. The most prevalently used today are the plans provided by Section 529 of the [Internal Revenue Code](http://en.wikipedia.org/wiki/Internal_Revenue_Code%E2%80%8E). The Section 529 prepaid tuition plan, in which semester units are purchased at today’s tuition rates, is based on the assumption that costs will rise in the future. The Section 529 savings plan, alternatively, is an account for which earnings are realized through investments in mutual funds made by state governments. Tax on the growth of these earnings is deferred, and any withdrawals made to pay for approved educational costs are tax-free. However, if the money is used for other purposes, it is taxed regularly and a penalty of 10 percent is enacted. Therefore, if there is any possibility that the savings might have to be used for other reasons, it may be wiser to place the money in another vehicle, such as an Individual Retirement Account or IRA.