

# How Military Families Can Save Money on College

By Karen Von Der Bruegge

Even if you're still buying diapers and baby formula for your child, the thought of sending your little one off to college has probably crossed your mind at some point. It may also cause you some stress since, according to [www.collegeboard.com](http://www.collegeboard.com), annual tuition can range between \$5,000 a year for a public four-year university, to more than \$20,000 for a private college.

But before deciding how—or even if—you're going to help pay for those costs, it's good to look at the numerous ways to pay for college. From tax-deferred savings plans, to grants, to scholarships, there are many different ways to send your little one to the quad without having her saddled with a mountain of debt afterward.



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## Start early with a 529 Plan

A 529 Plan is named after the section of the federal tax code that covers such deductions, and allows you to save pre-tax money to pay for college tuition. This money is, in turn, put into some type of investment that earns interest, allowing your money to grow.

Every state has at least one version of a 529 Plan, and all of them have features that make them a great savings tool:

- The money you invest is set aside tax-free
- You can withdraw money from the fund for qualified education expenses, also tax-free
- You take advantage of compounded interest, giving you more money in the long run

## Different types

There are two basic 529 plans, but some states (such as Arizona) offer as many as four varieties. Each of these offers different benefits, restrictions and methods of paying for college.

### Prepaid Tuition Plans

These plans allow you to save for a college or university in a specific state. The advantage is that the cost of tuition is locked into the rate charged when you open the plan. With tuition costs continuing to rise, this is a good way to hedge against those raises. The money is also transferable to another family member without tax penalties if your child decides not to attend college.

The disadvantage of the prepaid tuition plan is that most of the states have some type of residency requirement—either you or the child for whom you are saving must be a state resident. If the state does not have a residency requirement, then you might not be eligible for a break on state taxes. This can be quite difficult for military families due to frequent moves and the generally mobile military lifestyle.

To find out your “state of residence” (which may not be where your family is currently stationed) is the one you selected on DD Form 2058, and also appears on your LES.

### College Savings Plan

These plans differ from prepaid plans in a number of ways, but the main one is that a savings plan accrues much like a retirement savings plan—the money you contribute is invested in mutual funds and can increase as the stock market increases. And since this is a long-term savings plan, the chances of it increasing in value are very good since it won't be affected by temporary fluctuations in the market.

The advantage to this type of plan is that you can use it for higher education in any state. Most have no residency requirement—if you lived in Georgia, you could contribute to a plan in Michigan and send your kids to school in Oregon. However, there are a few states (such as South Dakota) that require residency in all cases. Another advantage is that you can use the money for your own education, or that of other family members.

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The disadvantage is that, if you choose to use an out-of-state plan, you may not receive the full tax advantages offered by an in-state plan. Also, the state or federal government does not insure your 529 investments in any way, so be aware that there is a possibility of the fund losing money.

### Similar traits

All 529 plans have a few things in common:

#### Beneficiaries

The College Savings Plan Networks notes that “anyone can be named the beneficiary of a 529 account, regardless of their relationship to the person who establishes the account. You can even establish an account with yourself as the named beneficiary.” This allows you to save for anyone at any time, just so long as they are “a U.S. citizen or a resident alien” and “have a social security number or federal tax identification number.” You can also have multiple 529 accounts for a single person.

If your child decides not to attend college, you can change the beneficiary and transfer the funds, so long as it is transferred to a family member. You can also withdraw the money for non-education purposes, but any earnings will be taxed, and some plans have penalties for doing so.

#### Contributors

Anyone can contribute to a 529 plan — grandparents, cousins, friends, even companies and non-profits. This can lead to many opportunities to save, since people can make a donation in lieu of a present at a birthday and contribute to other family members.

#### Tax implications

You will not be taxed when you withdraw the money for educational costs, nor are funds from investments in the plan taxed. But contributions are not tax deductible.



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To find a listing of the 529 plans offered where you live, and more detailed information, visit [www.collegesavings.org](http://www.collegesavings.org), or [www.savingsforcollege.com](http://www.savingsforcollege.com); both have a state-by-state listing of the plans available.

## Scholarships can be plentiful

While your child may be able to get traditional athletic or academic scholarships, there are literally thousands of scholarships available just for military families. Private and public companies, non-profits, and even the Department of Defense offer scholarships for service members, their spouses, and their children. Even students that have a lower grade point average or test scores may qualify for scholarships that encourage them to continue their education beyond high school.



#### Where to start

The first and perhaps easiest place to find scholarships is the Internet. A simple Google search can yield more results than you can realistically sort through, so try to be as specific as possible with your terms to start.

For example, if your spouse is an U.S. Army officer at Fort Hood, Texas, and you're searching for scholarships for your daughter, try “scholarships for daughters of U.S. Army officers in Texas” rather than just “Army scholarships” since the first is more likely to generate the results you want than the second. Take your time, make a thorough search, and be sure to bookmark any sites that fit your profile.

You can also go through the appropriate military relief agency, military non-profit (i.e. AUSA) and even the commissary system, which has one of the most popular military scholarship programs (found at [www.militaryscholar.org](http://www.militaryscholar.org)).

#### Tips on applying

Every scholarship will have different criteria, whether branch of service and school, to race, gender or nationality. Some are very specific, while others are more general. The key is to double check all of the criteria and know the exact requirements — the last thing you want to do is spend time filling out an application and collecting paperwork, only to find your child doesn't qualify.

It's also important to apply for as many scholarships as you can (keeping the criteria in mind) to ensure you're getting as much as you can. Again, though, make sure to read the fine print carefully to ensure there are no rules that may limit your access to other scholarships. For example, one may have some sort of requirement about only paying for room and board, yet you already have that covered with another scholarship.

Whether your child's entire schooling is paid for through scholarships, or if you're just applying for a few hundred dollars, it's more than worth the effort.

## Federal financial aid

The federal budget always includes several billion dollars in financial assistance. To receive it, however, you must first carefully complete the Free Application for Federal Student Aid (FAFSA) form and include all the required information. Students can pick up a copy of the FAFSA form from the high school counseling office, or from the college financial aid offices. You can also download them, or even complete them online, at [www.fafsa.ed.gov](http://www.fafsa.ed.gov).

Because financial aid is distributed on a first-come, first-serve basis, it is critical you submit the form as soon as possible after January 1, during your child's senior year in high school. Once your student's FAFSA form is reviewed, he or she will be sent a Student Aid Report that outlines the types of government financial aid available based on the information submitted. To find complete information about the federal financial aid process, visit [www.students.gov](http://www.students.gov).

## Other places to look

If you decide to apply for financial aid, you and your child should pay a visit to your child's high school guidance counselor. They will have a current listing of available scholarships and grants. These professionals are experts in the college application process and can provide assistance with the application. If necessary, they can also review essays and provide computer time. Be sure to check back with the counselor often, as updates to available scholarships are frequent. ●

### *About the author*

*Karen Von Der Bruegge grew up as a military brat whose father served 32 years in the United States Army. She is currently Chief Marketing Officer for Pioneer Financial Services, Inc., a company that provides responsible financial services and education exclusively to the military community. She is both a Certified Credit Report Reviewer and Identity Theft Prevention Specialist, and directs the management of websites that receive more than 100,000 page views every month.*

## Scholarships and aid resources on the Web

There are many sites that can help you track down money to help pay for a college education.

- [www.militaryhelp.org](http://www.militaryhelp.org) A large, comprehensive listing of military-specific links to educational resources.
- [www.students.gov](http://www.students.gov) A portal into federal dollars for education, information about employment, and other issues concerning students.
- [www.pueblo.gsa.gov](http://www.pueblo.gsa.gov) Helpful Information about 529 plans.
- [www.collegboard.com](http://www.collegboard.com) General information about college costs.
- [www.salliemae.com](http://www.salliemae.com) The largest provider of student loans in the country.