How to Manage Education Costs

A GUIDE TO:

Saving for College

EDUCATION GUIDE

THE Vanguard GROUP®

Succeed at Saving for College

A child's college education is one of the most important—and one of the largest—investments you'll make in the course of your life. But with education costs rising faster than inflation, the financial burden could become overwhelming if you're not prepared. That's why it's important to consult with your financial advisor to develop a college savings plan that will help you meet your goals.

This guide outlines the three basic steps to help achieve college savings success. Your financial advisor will work with you to:

Step 1: Set a savings goal.

Step 2: Review your savings options.

Step 3: Choose the right investment mix.

Step 1 Set a Savings Goal

No one can accurately predict what the price of college will be in 10 or 20 years. But it's helpful to have at least a general idea of the costs you're likely to be facing when the time comes to start looking at schools.

The chart on this page provides estimates, based on national averages, of what four years of college might cost, depending on when your child is likely to start college.

Estimated Future Cost of College

Years to College	Four Years at a Public School	Four Years at a Private School
1	$55,332	$118,164
2	$58,652	$125,254
3	$62,171	$132,769
4	$65,901	$140,735
5	$69,855	$149,179
6	$74,047	$158,130
7	$78,489	$167,618
8	$83,199	$177,675
9	$88,191	$188,335
10	$93,482	$199,636
11	$99,091	$211,614
12	$105,037	$224,311
13	$111,339	$237,769
14	$118,019	$252,035
15	$125,100	$267,157
16	$132,606	$283,187
17	$140,563	$300,178
18	$148,997	$318,189

Quick Tip

You may not have to foot the entire college bill yourself. Loans and grants from federal, state, and private sources can help bridge the gap between your savings and the tuition bills. Turn to page 2 to learn about financial aid options.

These estimated costs are Vanguard's projections based on data for the 2003–2004 academic year provided by The College Board. The figures assume that the costs of college will increase 6% annually and reflect a sample undergraduate budget that includes tuition, fees, and noncampus room and board. Your actual costs will vary.

Consider How You'll Cover Costs

Loans

Student loans are available to those who qualify, usually based on financial need. The interest paid on these types of loans may be deductible for federal income tax purposes. Consult your financial advisor for information.

Grants and Scholarships

Grant awards are usually based on financial need, but scholarships are often awarded for outstanding achievement in academics, athletics, or the arts, regardless of need. Your financial advisor may be able to suggest resources for grants and scholarships. Your student's guidance counselor or the financial aid offices of the colleges you are considering are also good sources of information.

Personal Savings

Personal savings that are specifically earmarked for college are probably the best way to cover your anticipated expenses. When you set up a special account dedicated to education, you generally gain tax advantages that aren't available in other types of accounts. Keep in mind, however, that there are usually requirements for how the funds can be used in order to qualify for tax savings.

For most people, personal savings are the best option, so the sooner you start saving and the more you contribute now, the longer the money will have to grow and the less you may have to borrow later. As the table on page 3 shows, putting money aside now is much more cost-effective than borrowing when the time to pay for college is upon you. Please note that investment returns are not guaranteed, and the value of your investments can fluctuate.

Turn to page 4 to learn more about your college savings options.

Save Now or Pay Off Loans Later?

Saving now is a lot more cost-effective. Take a look at the difference.*

As this example shows, if you decide to borrow later rather than save now, it could ultimately cost you almost three times as much.

Save Now

Annual Savings	Number of Years to Save	Total Investment	Total Available for College
$1,200	18	$21,600	$48,300**

**Assumes an average annual return of 8%.

Pay Later

Amount Borrowed	Number of Years to Pay Back	Interest Rate	Total Paid Back
$48,300	10	6%	$64,300

*This hypothetical example includes the reinvestment of interest, dividends, and capital gains distributions. It does not represent the performance of any particular investment.

Quick Tip

Your financial advisor can help you calculate how much you can afford to save for college. As a rule of thumb, you should try to save at least 50% of anticipated expenses.

Step 2

Review Your Savings Options

Once you've determined how much you need to save, your financial advisor will help you decide which savings option or combination of options is right for your situation. There are five major college savings options:

- 529 college savings plans.
- 529 prepaid tuition plans.
- Education savings accounts (also known as Coverdell Education Savings Accounts).
- Uniform Gifts/Transfers to Minors Act (UGMA/UTMA) accounts.
- U.S. savings bonds.

Quick Tip

Use the worksheet on page 5 to compare 529 college savings plans.

529 College Savings Plans

These plans are typically sponsored by individual states. They offer the greatest combination of flexibility, high contribution limits, and tax advantages of all the options. And your savings can be used to cover qualified expenses at any college or university, in the United States or worldwide, that meets federal guidelines, usually for a beneficiary of any age.

Earnings and withdrawals in these plans are exempt from federal and, in some cases, state income tax if they are used for qualified higher-education expenses.* In addition, the money is in your name, and can be transferred at any time to a different eligible beneficiary. Contributions may be deductible on your state income tax.

*Nonqualified withdrawals are subject to federal income taxes at the distributee's rate and a 10% federal penalty tax. Earnings on qualified withdrawals made after December 31, 2010, will be federally taxable unless the law allowing federal income tax exemption is extended.

Compare 529 College Savings Plans

Feature	Your State's Plan Name	Alternative Plan Name	Alternative Plan Name
State tax benefits			
Investment provider			
Investment options:			
■ Age-based options or individual investments?			
■ Types of funds available			
Maximum contribution			
Age and other limitations			
Online account access			
Fees and expenses:			
■ Enrollment fee			
■ Annual maintenance fee			
■ Asset-based management fee			
■ Underlying fund expenses			
Other important features			

529 Prepaid Tuition Plans

Sponsored by the states—and by a group of independent colleges and universities across the United States—529 prepaid tuition plans allow you to lock in tuition rates for future education costs. You purchase these plans two ways: as education contracts (a certain number of semesters or years of tuition) or as units (a fixed percentage of tuition). You can pay in one lump sum or through installments. Some plans allow limited selection of mutual fund investments.

When your child is ready to enroll in college, you redeem the contracts or units to pay for qualified higher-education expenses. Earnings and withdrawals are exempt from federal and, in some cases, state income tax as long as they are used for qualified higher-education expenses.* Contributions may be deductible on your state income tax.

Education Savings Accounts (ESAs or Coverdell Education Savings Accounts)

These accounts allow $2,000 per year (total from all contributors) to be put aside for a child younger than age 18. As with most education savings plans, contributions are not tax-deductible, but earnings grow tax-deferred.

Withdrawals from these accounts are free from federal, and sometimes state, income tax when you use the money to pay for qualified education expenses at any level—elementary, secondary, college, or graduate school.*

Quick Tip

You can contribute to an ESA for a particular tax year until April 15 of the following year.

*Nonqualified withdrawals are subject to federal income taxes at the distributee's rate and a 10% federal penalty tax. Earnings on qualified withdrawals made after December 31, 2010, will be federally taxable unless the law allowing federal income tax exemption is extended.

UGMA/UTMA Accounts

Uniform Gifts/Transfers to Minors Act accounts are established for a minor but are administered by an adult custodian, who may use the assets only for the benefit of the child. There is no limit to how much you can contribute to one of these accounts, and up to $11,000 in contributions each year are free of the federal gift tax ($22,000 if contributing with a spouse). However, contributions are irrevocable. When the student reaches the age of majority according to the laws of the state in which the account is established, he or she takes control of the account.

Unlike most other college savings options, withdrawals from UGMA/UTMA accounts are taxable. Investment earnings are subject to federal income tax on a sliding scale.

Quick Tip

Compare each of the savings options and work with your financial advisor to select the one or two that best suit your circumstances. Then commit to a savings schedule for each option and stick to it faithfully.

U.S. Savings Bonds

Two types of savings bonds — Series EE and Series I — offer special incentives to college savers. These bonds are issued in denominations from $50 to $10,000, and the interest they earn is exempt from state and local income tax, even if you don't use the money for education expenses. If you do use the money to cover higher-education expenses, it may also be exempt from federal income tax. Consult your financial advisor for more information.

A Comparison of the Major College Savings Options

	529 College Savings Plan	529 Prepaid Tuition Plan
Who should invest	Investors who want to contribute substantial amounts to a tax-free college fund and to maintain control over their account.*	Investors who want the security of prepaying for some or all of a child's tuition credits.
Ability to change beneficiaries	Yes.	Yes.
Control	The person who establishes the account.	The person who establishes the account.
Use	Qualified higher-education expenses (college-level and beyond).	Generally, qualified tuition and fee expenses only (college-level and beyond). Some plans also cover room-and-board expenses.
Financial aid implications (percentage of account value that counts against financial aid each year)	Parent as owner, up to 5.6%;*** another individual as owner, 0%.	Parent as owner, up to 5.6%;*** another individual as owner, 0%.
Tax treatment:		
Of contributions	Some may be deductible on plan owner's state income tax return.	Some may be deductible on plan owner's state income tax return.
Of earnings	Free from federal and possibly state income taxes when used for qualified higher-education expenses.*	Free from federal and possibly state income taxes when used for qualified higher-education expenses.*
Penalties on earnings	Earnings on nonqualified withdrawals may be subject to federal income tax and a 10% federal penalty tax. State penalty may also apply.	Earnings on nonqualified withdrawals may be subject to federal income tax and a 10% federal penalty tax. State penalty may also apply.
Contribution maximum per beneficiary	Contributions can be made until total assets reach from $200,000 to $300,000, depending on the state that sponsors the plan.	Varies by state and participating school.
Investment options	Vary according to the offerings of each plan; in general, portfolios invest in mutual funds or combinations of mutual funds.	Generally, tuition units or contracts that grow according to the tuition inflation rate (averages 6% a year).
Estate-planning consequences	Contributions are removed from estate in year for which they count against the $11,000 federal gift-tax exclusion.††	Contributions are removed from estate in year for which they count against the $11,000 federal gift-tax exclusion.††

*Earnings on withdrawals made after December 31, 2010, will be federally taxable unless the law allowing the federal tax exemption is extended.

**If you name a beneficiary (you are not required to do so when you purchase these bonds), you can change the beneficiary to another eligible individual at any time. If you are using the bonds for your own education, they must be registered in your name.

***Distributions for qualified education expenses are not counted as parent or student income in determining federal financial aid eligibility.

	ESA	UGMA/UTMA Account	Series I and Series EE U.S. Savings Bonds
	Investors who want maximum control over their investment options, who want to cover pre- and postcollege expenses, and who plan to contribute $2,000 or less each year.	Investors who are comfortable turning over control of the account to the beneficiary at the age of majority for the state the account was established in. Investors who want the option to contribute noncash assets.	Investors seeking guaranteed, though conservative, returns over the life of the account.
	Yes.	No.	Yes.**
	The person who establishes the account.	The custodian until the child gains control of the account, generally at age 18 or 21, depending on the state.	The individual–or married couple filing jointly–who purchases the bonds.
	Qualified expenses for any education level from kindergarten through graduate school. Withdrawals must be made before the beneficiary reaches age 30.	Any expense, as long as it benefits the child, except food, clothing, and shelter.	Any expense.
	Parent as owner, up to 5.6%;*** another individual as owner, 0%.	Student considered owner, up to 35%.	Parent considered owner, up to 5.6%.
	No state income tax deduction.	No state income tax deduction.	No state income tax deduction.
	Free from federal income tax when used for qualified expenses at any education level.* State income tax treatment varies.	Child under age 14 with no earned income: ▪ Up to $800, free from federal income tax. ▪ $800 to $1,600, taxed at child's rate. ▪ Over $1,600, taxed at parents' rate. Child age 14 or older: ▪ All earnings taxed at child's rate.	Free from state and local income taxes. May be free from federal income tax if used for qualified higher-education expenses.
	Earnings on nonqualified withdrawals may be subject to federal income tax and a 10% federal penalty tax. State penalty may also apply.	None.	Three months of interest forfeited if redeemed within the first five years.
	$2,000 annual contribution limit from all sources and to all accounts.	Unlimited. Up to $11,000 ($22,000 for married couples) annually per beneficiary without being subject to federal gift and estate taxes.†	Individuals can purchase up to $30,000 ($60,000 if married and filing jointly) of each type of bond a year.
	Anything except insurance.	UGMAs: Mutual funds and securities. UTMAs: Almost any asset, including mutual funds, securities, real estate, royalties, patents, and paintings.	Series EE and Series I bonds.
	Contributions are immediately removed from estate.	Contributions are immediately removed from estate.	Bonds remain in owner's estate.

† To avoid incurring the federal gift tax in any year that your total contribution exceeds the annual limit, you can have the excess amount applied to your lifetime gift-tax exemption of $1 million ($2 million for married couples). For more information, consult your financial advisor.

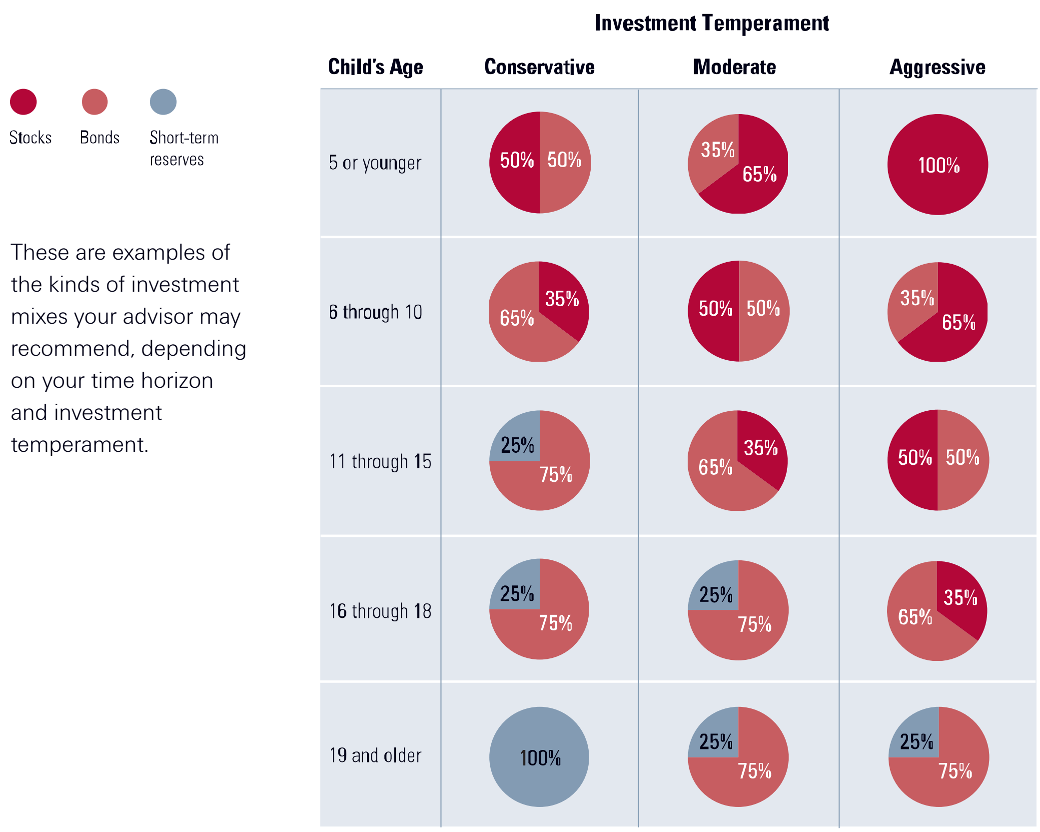
†† If you choose to take advantage of the accelerated gift-tax benefit and you die within five years, a prorated portion of the contribution will be subject to estate tax. If you contribute more than $11,000 in a particular year, you must file IRS Form 709 by April 15 of the following year. For more information, consult your financial advisor.

Step 3 Choose the Right Investment Mix

How your advisor structures your investment mix among stocks, bonds, and short-term reserves depends on the amount of time before you'll start making withdrawals, combined with your personal investment temperament. As withdrawal time approaches, your advisor will generally make your portfolio more conservative.

Your financial advisor will help you determine an investment mix that's right for your situation and will develop a plan for adjusting your mix to reduce risk over time. In many cases, 529 plans offer options that automatically adjust your investment mix so your portfolio becomes more conservative over the years.

Example Investment Mixes



These are examples of the kinds of investment mixes your advisor may recommend, depending on your time horizon and investment temperament.

Get Started Now

Work with your financial advisor to develop a college savings plan that's right for you. The sooner you start, the less you may need to put away, because your assets will have more time to grow.

Quick Tip

To succeed at saving for college, work with your financial advisor to:

- Set a savings goal.
- Select the right savings plan for your circumstances and save faithfully.
- Choose an appropriate investment mix and adjust it over time.

Notes

Work with your financial advisor to make saving for college easy.

Your financial advisor is available to answer your questions about saving for college or any other aspect of your investment program.

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