

Parents face a college-fund conundrum



My Generation
By HOLLY SPANGLER

WE'VE had a running debate in our house lately — and by lately I mean since our kids were born. The question centers on whether we should set up some kind of college savings plan for our kids,

who are just 3 and 1. Are we better off heading into the college years with substantial educational savings (OK, or any savings) for the kids, or is it better from a grant/scholarship position to appear dirt poor?

Quite frankly, when my husband, John, and I entered college more than a decade ago, the latter route worked for each of us. Many years ago, applicants for FAFSA (Free Application for Federal Student Aid), which looks at

gross income and determines the combination of family contribution, loans and grants a student receives, were required to list gross income. For farm families, this meant that gross income and assets were counted against them — never mind that it was all tied up in nonliquid farm assets.

By the time I applied, they looked at adjusted gross income, but I still didn't get much initially. So I made it through my first year at the University of Illinois

on scholarships and cheap living.

By my sophomore year, my brother was in college, too, and the FAFSA gods smiled on us. Two kids in college equaled enough grants to cover both tuitions, and I could fall back on several scholarships offered through the ag college. Before long, I was getting money back each semester, which I then used to pay my house bill. College was not a problem (at least the financial part, anyway) and I graduated debt-free.

Getting complicated

It all seemed reasonably simple then. U of I estimated costs at \$10,000 a year (though I got by for about \$2,500 less, thanks to 4-H House). For its part, the university pegs tuition and fees for the 2006-07 school year at \$18,682 — over less than 10 years, it's double what I paid. Today, public colleges average \$12,127 a year; private schools average nearly \$30,000.

Which brings us back to the original question: start saving now or hold off?

The non-ag world widely promotes 529s, a state-sponsored, tax-deferred savings plan, in which you can withdraw money income tax free so long as it's used at an accredited college.

Again, most people wouldn't dream of not saving anything for their kids' college funds. Yet I'd argue the picture is different for young farm families like us.

John has long believed that you're better off investing in your own business and becoming more financially stable by the time your kids go to college, than to have unpaid debt while money sits in a college fund. Obviously, he's the business-minded one in our family.

He also argues that it makes more sense to pay off higher-interest farm debt than to sock away money in a 529 that's earning lower interest. And according to Julie Burenga, a certified financial planner with Jehl & Kreilach Financial Management, Fort Wayne, Ind., he may be right. She estimates that a well-invested 529 could earn 7% to 8% over time on a tax-deferred basis, which you'd have to compare with after-tax cost of debt service.

So much in the air

Those numbers are reasonably easy to calculate, but throw in FAFSA and it becomes more of a guessing game. The rules are favorable to farm families now, but who knows what the rules will be by the time our kids are ready to apply.

Nonetheless, Penny Lauritzen, a certified financial planner with Farmers National Co., recommends going the 529 route. "If you don't have some saved, it's almost going to seem insurmountable," she explains.

Ultimately, it comes down to a question of emotions vs. analytics, says Burenga — hitting the nail on the head for our household. Analytically, she says, it makes sense to service debt if that's costing you more than a 529 would earn you. Emotionally, however, many people put a higher value on helping their kids pay for college.

It seems like we might be right back where we started.

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