

COLLEGE SAVING STRATEGIES FOR RETIREES

Saving for college isn't just for kids anymore. Or grandkids, for that matter. It's also for retirees.

While most people don't move when they retire, some move to retirement communities and an increasing number are retiring in college towns. They like the intellectual stimulation, the cultural offerings and the often excellent medical facilities. A greater percentage of baby boomers are expected to move when they retire, and college campuses are expected to be a strong draw for them. And they won't just be moving to college towns, they'll be attending classes – in some cases, earning degrees. That means that just as they saved money for college for their children, they'll need to save money for their own education.

Those thinking seriously of going back to school when they retire, or those already retired and thinking about it, have two major options to consider. One is moving to one of the many retirement communities being built near college campuses, sometimes under sponsorship of the college itself. Many of these are designed along the lines of continuing care communities – you pay a hefty fee up front, along with monthly fees ranging from \$2,000 to \$4,000, but are assured of accommodations ranging from independent living to full-time nursing care. As part of living there, residents attend classes, either on campus or in classes set up just for them, as long as they are physically and mentally able to do so. Often the cost of the classes is incorporated in the housing fee.

The second option is to simply attend classes on your own. This, of course, can require an outlay of tuition money you may want to start setting aside even before you retire. Strategies for saving money for your own college education include some of the options you may have used to save for your own children's education.

One of the most appealing options for *senior* college students is the 529 college-savings plan. These state-sponsored plans, in which after-tax dollars are invested in mutual funds or other managed accounts, allow earnings to grow free of federal tax, and in some cases, state taxes, and withdrawals for qualified education expenses are also free of federal income tax.

Many plan accounts are under the weather these days because of the bear market, but 529 plans still offer considerable flexibility for retirees. First, you'll probably want to select a conservative portfolio from the plan, such as a guaranteed investment contract, presuming you'll use the funds fairly soon. But you could invest more aggressively if school will still be years away. Second, read the fine print for any plan you're considering. For example, while most plans don't put a maximum age restriction on beneficiaries, some do.

Another attractive feature for 529 plans is that if you don't end up using the account funds for your own education, you can always name a new beneficiary, such as a grandchild, and let them use the funds. It's a great way to pass on some of your estate free of estate tax. Gift-tax rules apply the same as if you'd funded a 529 plan for another beneficiary from the beginning.

A more conservative approach is prepaid tuition plans, where you buy tomorrow's tuition at today's prices. The challenge here is that you generally must live in the same state where the prepaid plan is offered, and many plans have age or grade restrictions. As with 529 plans, a prepaid plan could be transferred later to another beneficiary, such as a grandchild.

Those still working also might consider contributing to a Roth individual retirement account, which allows the earnings of after-tax contributions to grow tax free and, if held long enough and past age 59 1/2, to be withdrawn tax free.

Interest earned by U.S. savings bonds is free of tax if used for education purposes and as long as your modified adjusted gross income is not too high. (For 2003 taxpayers, the phaseout began at \$87,750 for married couples filing jointly.)

And of course, you can always invest in taxable assets. If you anticipate several years before starting college, you might consider growth assets, such as stock, that don't throw off current income. If you're near retirement or retired, and expect to start school soon, you'll want to be much more conservative in your investments.