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EXTENSION

Open Doors with Higher Education: Types of Investments to Pay for College

In addition to grants, loans, scholarships, and other resources that pay for college, there are several investments that can help you with college costs. The following table is a guide to possible investments.

Age of Child	Type of Investment	Investment Characteristics
Birth to 3 years	Coverdell Education Savings Account (ESA)	An ESA allows you to contribute up to $2,000 per child that will be free of taxes when withdrawn to pay for elementary and secondary education and beyond. However, any investment in a child's name may reduce federal aid.
	Mutual Funds	In this plan an investment or financial company manages your money and money from other people invested in stocks, bonds or other financial assets. The diversification of investments in different industries reduces the risk of loss, but your profit may be affected by the state of the market or other economic conditions. These investments are not insured by the federal government.
	529 College Savings Plan	This is a managed investment account through your state for paying college costs. The program covers costs of qualified colleges nationwide and the interest and withdrawals are exempt from federal tax. However, having money in this program may reduce federal aid.
	Common Stock	This is an investment where according to Get Ready for College (2007) "Each share of stock represents part ownership and a claim to the company's assets and profits in proportion to the number of shares owned." Companies sometimes sell shares of stock to people to obtain economic resources to support the growth or expansion of the company. Investing in just stocks in a company or a very few of them can be risky, because its value is determined by the fluctuation of the market —if the market goes up, then you profit, but if the market goes down, you have losses.
From 4 to 9 years	U.S. Treasury Savings Bonds (Series EE)	Savings bonds pay a higher interest when the investment has been kept for more than five years. Once the bonds are cashed to pay for higher education, depending on your income level at that time, you may not have to pay taxes to the state. This kind of investment is backed by the federal government.
	U.S. Zero-Coupon Bonds	The profit in this investment is determined by the actual interest rates. At the end of the planned time, you will receive a previously fixed cash payment. This kind of investment is backed by the federal government.
	529 College Savings Plan	See Birth to 3 years above.

Age of Child	**Type of Investment**	**Investment Characteristics**
From 4 to 9 years	Coverdell Education Savings Account (ESA)	See Birth to 3 years above
From 10 to 18 years	Money Market Accounts	These bank savings accounts have a higher interest rate as well as a higher minimum balance than common savings accounts. Savings accounts are insured by the Federal Deposit Insurance Corporation (FDIC), which allows you to keep up to $250,000 in any combination of investments in any one institution. FDIC is an independent office of the federal government that insures up to $250,000 through 2013 the savings, checking and other deposit accounts. FDIC has the objective of promote and preserve public confidence in the United States financial system.
	Certificates of Deposit or CDs	Certificates of deposit can be purchased in banks; they pay a set interest rate for a determined amount of time. In general, the longer the savings time the higher the interest rate. There is a penalty if the savings are withdrawn before the time period is over. CDs are insured by the FDIC.
	Money Market Funds	Your money is managed by a professional in various types of investments and generally has a higher interest rate than Money Market Accounts. Even though the money invested is subject to market fluctuations, Money Market Funds, with rare exceptions, preserve the investor's original investment. However, there is no guarantee and these accounts are not insured.
	Life Insurance	If you have enough cash value in your whole life insurance policy, you may be able to obtain a loan against it. Your insurance premiums pay for some insurer expenses and for the accumulation of the cash value of the policy. This cash value is tax deferred. But if you take a loan to pay for college, you don't owe any taxes. The disadvantage of taking out a loan on life insurance is that you are reducing your family benefits in case of death of the person who is insured.
	U.S. Zero-Coupon Bonds	See 4 to 9 years above
	Coverdell Education Savings Account (ESA)	See Birth to 3 years above
	529 College Savings Plan	See Birth to 3 years above

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This checklist was developed by Antonio Alba Meraz, Extension Educator–Family Resource Management, University of Minnesota Extension Regional Office–Mankato (last update September 2009). Contact Antonio at 507-389-6764 or albam001@umn.edu for more information about this checklist.

Note for the Educator. Open Doors with Higher Education: Resources to Pay for College Checklist was designed to be used as an interactive resource at the instructor's discretion, according to the needs of parents and even students in grades 7-12 (Junior and High School). For instance, sharing experiences from learners or from the instructor, relevant fact sheets, activities, games, demonstrations, videos, and guest speakers can be used when presenting a workshop or during an individual session.

Additional information about the Open Doors with Higher Education project can be found at: http://www.extension.umn.edu/Finanza/open-doors.html.

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