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What you need to know about financial planning for college education

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There are many ways to save for college education. It's the how and where that is the hard part.

The most common form of college savings is the 529 plan. After the recent tax law changes, 529 plans may be more attractive than ever for some families. In New York state, married couples filing jointly can deduct up to $10,000 annually for contributions and single filers can deduct up to $5,000. Coupled with tax-deferred growth and tax-free withdrawals if used for higher education there is a lot to like.

With the recent federal tax reform, 529 funds can be used for the first time toward private elementary or secondary school tuition. For families intending to go this route, this added flexibility may provide the incentive to take full advantage of this state tax deduction.

But the 529 plan is not for everyone. Many parents want even greater savings flexibility, view financial aid incentives as a more significant planning opportunity or want to save for their child's future without obligating them to have to use it for college. Perhaps their child wants to be an actor, an athlete, pursue a trade, etc.

Maybe a parent feels comfortable they have the luxury of affording college from cash flow – and simply wants to provide their child a "head start" with money that can be used for a home down payment, a wedding, etc.

The opposite could be true – parents want to save – but are concerned about their own financial security. They want a safety net free of income taxes and penalties in case an emergency comes along, or financial priorities change. You can borrow for college, but you can't borrow for retirement.

For those whose income or financial position allows, contributing to a Roth IRA each year can be a unique tool. Many are familiar with the basic Roth story – after-tax contributions, tax-free withdrawal of gains. What many don't realize is that any principal deposit can be withdrawn penalty and tax-free five years after contribution. This can allow future-focused savers a great emergency fund or alternative college savings path.

Also, all withdrawals from both traditional IRAs and gains in Roth IRAs, while not tax-free, are exempt from penalty if used for qualified education expenses.

Another arrow in the college savings quiver is whole life insurance. Often misunderstood or poorly implemented, this form of cash value life insurance can make sense for those who can check the following boxes: desire to have a death benefit to protect their family; children are young – 10 years or more until college; prefer a conservative investment; and family may be a candidate for financial aid. Cash value whole life, particularly the type you pay for a specific, limited duration (such as 10 years), can provide a less-volatile rate of return. There is also the peace of mind of the death benefit helping to fund college costs should the unexpected happen.

The most common financial aid application does not ask for the cash value of life insurance policies – while they certainly do want to know how much you have saved in a 529 plan or other investment account.

Another savings tool that is often overlooked for the purpose of college is the all-too-common, yet underutilized, brokerage account. People save in their 401(k) and put a certain amount into an emergency fund, but rarely do they invest simply for the purpose of investing. Buying a quality mutual fund, exchange-traded fund or stock can be powerful. Over the years this can and should build wealth. This wealth can be used for any purpose you want.

When it comes to college make it a priority for the entire family around birthdays, holidays, religious events and graduations. Let people know the accounts you have established and allow them to participate in the savings goal.

Your employer may offer a match at work that encourages people to save for their retirement. If you are a business owner, the match you may offer undoubtedly encourages increased savings by your employees. Offer your daughter or son a "college savings match." If he or she works and saves for college, match their contribution.

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