



ED SLOTT'S IRA ADVISOR

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TAX & ESTATE PLANNING FOR YOUR RETIREMENT SAVINGS

Roth IRAs... The Ultimate College Savings Vehicle?

For some time now, the cost of a college degree has been rising at perilously high rates, and as a result, the dream of one day going to college, for many, remains just that ... *a dream*. With college tuition and associated costs rising so dramatically, it's no surprise that people are looking for new and creative ways to save for these expenses. One such alternative method involves the use of a Roth IRA over more traditional college savings vehicles, such as 529 plans and Coverdell education savings accounts. That may sound bizarre. After all, why would anyone use a retirement account to save for education expenses when there are special accounts specifically designed to help plan for education costs? Nevertheless, here are some reasons why it may not be as crazy as you think.

Roth IRAs Aren't Included as an Asset on the FAFSA Form

When a child goes to college, if they want to receive student aid, the filing of a Free Application for Federal

Student Aid (FAFSA) is pretty much a must. There are well over 100 questions on the FAFSA form, many of which are financial in nature and designed to help calculate what's known as the expected family contribution (EFC). The EFC is essentially the amount that Uncle Sam thinks a person should pay for their own education and is calculated, in part, based on the assets of a student and their parents.

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When reporting assets on the FAFSA form, most assets, including 529 plans, are included in the calculation. That means by doing the "right" thing and diligently saving for a child's education in a 529 plan – a plan expressly designed for

that purpose – could end up increasing a client's EFC, reducing or eliminating the amount of financial aid for which they would otherwise qualify. That doesn't seem fair, but don't blame us. We don't make the rules.

On the other hand, Roth IRAs – along with other retirement accounts –

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Guest IRA Expert

Joe Clark, CFP, RFC
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Indianapolis, IN
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