



Saving for Law School

Preparing for law school takes a significant amount of financial planning. Only one year at a top U.S. law school may cost over \$50,000, and the cost of college educations continues to rise at a rapid pace. With the current low interest rates on traditional saving products, such as bonds and CDs, you may need to explore other options to help make the most of your money and cover your law school expenses.

As a student, it is never too soon to begin saving for college. If you have a part-time job, start saving some of your earnings from each paycheck, even if it is only a small amount. The more money you can save, the less you will need to borrow. Start out with a small percentage of each paycheck, and then increase the amount you put into savings as your pay increases. Open an interest-bearing savings account at your local banking institution and begin watching your money grow. You may also want to consider investing your money. Contact a professional financial advisor to find out if this is an option for you.

For parents, setting aside money for your children's college educations is the best way to help them handle the financial burden of law school. You should also get in the habit of saving a specific percentage from each paycheck to place in a savings account, or invest to obtain the greatest return with the least amount of risk. A common investment for parents is a Coverdell Education Savings Account (CESA), formerly called an Education IRA. This type of savings account is designed to assist families with saving for education expenses. An important aspect of a Coverdell account is that these funds can be used to pay for education expenses from kindergarten through law school. Deposits in Coverdell accounts are made with after-tax dollars, and the funds grow in the account tax free. Even when you withdraw funds from a Coverdell account, they are not taxable by the federal government, although you may need to pay state taxes on the amounts you withdraw.

There are limits to the amounts you may deposit in a Coverdell account. If you are a single tax filer with adjusted annual gross income up to \$95,000, or a joint tax filer with adjusted annual gross income up to \$190,000, the maximum contribution is \$2,000 per year. The maximum contribution decreases if your income is above these limits, and if you are an individual making more than \$110,000, or a joint taxpayer with income greater than \$220,000, you will not be able to contribute to a Coverdell account. However, as long as they meet the appropriate income levels, anyone may contribute to a Coverdell account, including the student, grandparents, etc. Contributions must be made in cash before the student turns 18. These funds are always controlled by the account owner and may be used for qualified education expenses of siblings if the intended beneficiary does not use the funds in the account.

Your state may also have a "Section 529" plan that helps families save for their children's college expenses. These plans are authorized by Section 529 of the Internal Revenue Code. If your state has



such a plan, the maximum contributions per child each year will be determined by your state. Section 529 contributions are generally not deductible on your federal income tax return, but taxes on the earnings within the plan are deferred until the student goes to college. When the student enters college, the earnings will be taxed at the student's tax rate.

State sponsored plans are low risk, and are generally beneficial. However, you should look into the attendance requirements related to the plan. Some states only allow these funds to be used at in-state schools, and some plans have provisions that allow a penalty to be assessed if the student attends an out-of-state institution.

Of course, using savings is not the only way to pay for your education. The majority of students have to rely on other financial aid options, such as loans, to fund their educations. It may be difficult to forecast how much money will be needed for law school, but if you think your savings may fall short, you should begin investigating other funding options, such as federal loans, private loans, and grants. There are programs available to you to ease the stress and financial burden of obtaining a legal education. You should plan ahead, and take advantage of all of your available resources.