

Parents can borrow for college trust fund

AP — Parents who want to guarantee their children four years of college tuition will have to borrow the money from private lenders if they can't pay the \$5,000 to \$7,000

enrollment fee up front, state Treasurer Robert Bowman said. Bowman discussed the program and the effect of a written Internal Revenue Service ruling, which is ex-

pected to add about 20 percent to the cost of enrolling in the Michigan Education Trust fund.

The treasurer denied a report by a Republican researcher who questioned the program's financial soundness and claimed parents would have to pay \$7,000 to \$10,000 to guarantee four years of college tuition in the year 2006.

"It seems a little too high to me," Bowman said.

THE STATE won't offer the prepaid tuition contracts on an installment plan basis, Bowman said. Reasons: It doesn't want to handle monthly payments and would rather involve the private sector.

But he said parents still would benefit by the plan because they'll be able to get a lower interest rate and even deduct the interest if they take out a home equity loan.

If it cost \$7,000 to sign up a child, parents could pay \$126 a month for six years on a 9-percent home equity loan. The interest is tax deductible, so the net cost would be just \$112 a month.

For example, if it cost \$7,000 to sign up a child, parents could pay \$126 a month for six years on a 9-percent home equity loan that would cost just \$112 a month after taxes.

Unlike a car or home loan, borrowers won't have to meet a credit test or put up collateral. If they default or miss payments, they either will get some of their money back or qualify for partial tuition payments.

Under the program, the parents would invest a lump sum into a

state-managed fund. The state would guarantee that the initial payment plus interest earnings will cover four years of college tuition at a state university when the child turns 18.

THE REPORT by staffers for the Senate's Republican majority urged lawmakers to take another look at whether the plan is still economically viable after the IRS ruling, which said MET must pay taxes on the fund's interest earnings.

Senate Finance Committee Chairman Norman Shinkle, R-Lambertville, has scheduled a hearing to consider whether the state should drop the state-run program and replace it with incentives for parents to save for college through private programs.

"I think the pricing of it is the key question," said Senate Majority Leader John Engler, R-Mount Pleasant.

Engler said he's concerned that taxpayers may have to end up bailing out the program if college tuition outpaces the fund's earning potential.

THE IRS ruled that parents don't have to pay taxes on the money they invest in the program, but their children must declare the earnings as income when they reach 18 and begin to draw a benefit.

That would mean, for example, that if a student's parents invested \$6,000 in the trust now and college tuition was \$30,000 when the child turned 18, he or she would have to pay taxes on \$24,000 of income.

But because the earnings can be claimed at a rate of \$6,000 over four years, Bowman said it's unlikely that student would owe much. By then, he said, the standard deduction likely will exceed the amount claimed.

Bowman expects the state to begin taking applications in May.

The state's toll-free hot line to answer questions about the program: 1 (800) 638-4543.

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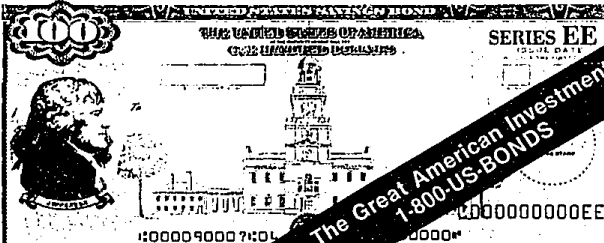

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