
Funding Private Elementary/Secondary School

How can you pay for your child's private school?

Many parents are committed to sending their children to private elementary or secondary school. Yet paying private school tuition can present a compelling cash flow problem. The reason is that, unlike with college or graduate school, there are fewer outside options to reduce your out-of-pocket expenses. For example, financial aid is practically nonexistent at this level of schooling, and parents are less likely to send their young children to distant schools with lower costs.

So, unless the private school you are considering offers some type of financial assistance, the only way to pay for your child's private school tuition is out of your own pocket. Following is a list of important options; you may implement one or several of the options.

Pay from cash flow

Paying as you go from cash flow involves setting aside a certain amount of money from your paycheck each week (or any other steady income source, such as rents or child support) and applying it toward your child's private school tuition. Unfortunately, this outflow of cash may leave parents unable to invest for other goals.

Withdraw from your savings and investments

If you have savings and investments to draw on, you might consider withdrawing from savings and investments for your child's private school tuition. Withdrawing from your savings account can be an easier route than withdrawing from investments.

Withdraw from your Coverdell education savings account

If you have a Coverdell education savings account, then this is probably your best option. You can withdraw money tax free to pay elementary and secondary school expenses (not to mention you'll be able to contribute \$2,000 per year--assuming you meet the income requirements). If you don't yet have a Coverdell ESA, you should consider opening one to take advantage of the tax benefits.

Withdraw from your IRA

In addition to withdrawing from your Coverdell ESA, you can withdraw from your IRA (traditional or Roth) to pay your child's private school expenses, although penalties and/or taxes may be triggered by the distribution.

Borrow or withdraw from your employer retirement plan

If you have an employer-sponsored retirement plan, such as a 401(k) or 403(b) plan, you may be able to access money from your employer-sponsored retirement Plan (by borrowing or withdrawing from the plan) to obtain funds for your child's private school tuition. Many plans allow you to borrow against your own contributions (and any accumulated earnings), and some may allow you to borrow against any contributions made by your employer. Additionally, many plans allow discretionary withdrawals for certain purposes, although penalties and taxes may apply.

Use your home equity

If you own a home and have equity in it, you might consider using your home equity by obtaining a home equity loan or a refinancing your mortgage. A home equity loan is a loan secured by your home. By contrast, a mortgage refinancing refers to the process of taking out a new home mortgage and using some or all of the proceeds to pay off an existing mortgage. The main purpose of refinancing is to save money by taking advantage of lower interest rates, or to lower monthly payments by extending the term of the loan.

Use your cash value life insurance

If you own a cash value life insurance policy, you may be able to either borrow or withdraw from this cash value to obtain funds for your child's private school tuition, although this may reduce the amount of your death benefit. Unfortunately, using cash value life

insurance works only if you have held the policy for a number of years. If you have just recently acquired a cash value policy, it may take years before your policy cash values begin to accumulate to sizable amounts.

Gift assets to your child

If you own an asset that has appreciated substantially in value (such as stock), or if you own an income-producing asset (such as an apartment building), you may want to gift the asset to your child . The benefit is that the child may pay tax on the gain or income at a lower tax bracket. However, there may be gift tax implications associated with gifting amounts over the amount of the annual gift tax exclusion, as well as income tax implications for children with income over certain levels.

Have one spouse return to work

In some instances, the paycheck of one or both parents may not be enough to meet private tuition expenses. In this case, families may need to consider having a previously stay-at-home spouse return to the workforce , or having one previously working spouse increase his or her hours or obtain another job with better compensation.

Apply for financial aid

Though it may be a long shot, the private school you are interested in just might offer its own financial aid, so consider applying for school-based loans . Unfortunately, federal student aid programs are geared only to higher education.

Utilize other loan sources

If you've exhausted your discretionary income, savings and investments, and any other assets you have, you may need to utilizing other loan sources. Such a loan can be a personal loan, a collateral loan, or a margin account loan.

Employ unique strategies for business owners

Finally, if you are a business owner, you may be able to implement strategies unique to business owners . For example, you may be able to arrange a gift-leaseback transaction with your child, or gift company stock to your child. In this case, your child can sell the stock and use the proceeds for private school tuition. These strategies can be rather complicated, so you may need to consult an attorney.

Alternatives

For parents who "do the math" and decide they cannot afford to send their children to private schools, an alternative may be charter schools. Charter schools are publicly funded schools run by for-profit companies. They offer widely differing approaches on how best to educate students, from longer school years, varying curriculums, school uniforms, or donated computers. One thing is clear--their popularity is increasing. Some view their existence as the start of a revolution in U.S. education. For others, the jury is out until the educational results are in.

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