DO 529 COLLEGE SAVINGS PLANS WORK?

GIVEN THE PRICE OF COLLEGE, young parents can be forgiven for viewing your child's future first day on campus as Judgment Day. By 2023, the yearly college bill for tuition, books, and room and board will hit almost $27,000 for in-state public universities and more than $59,000 for private universities, according to a projection by Wells Fargo Advisors.

"It's very easy for a parent to say, 'I want little Johnny to get four or five years of college,'" says Joseph Eschleman, managing director at Wells Fargo Advisors' Sacramento office. "There's an ignorance — and I don't necessarily mean that in a bad way — about what college is going to cost."

That's why many parents choose to get time working for, instead of against, them by investing in tax-advantaged college savings accounts. Known as 529 plans, these normally allow parents to put aside up to $12,000 a year in an investment account to use for educational expenses. While for California parents there's no tax deduction at the time you invest, the money grows tax-free and isn't taxable when it's withdrawn, as long as it's used to pay for educational costs.

In essence, it operates much like a Roth IRA — but instead of using the money for retirement, you use it for college. And like any retirement account, many of the choices will sound familiar. You can choose actively managed funds, which have higher fees, or index funds, which have minimal fees. You can pick age-based funds that change the portfolio mix as your child grows, with the mix getting more conservative as you approach the point at which you'll actually need the money.

California's 529 plan, called the ScholarShare College Savings Plan and run by TIAA-CREF, gets high marks from fund analysts for its performance and low fees. Savingforcollege.com, a leading industry website, ranks it second in the nation on its 3-year performance, though it hasn't been around long enough to show up in the 5- and 10-year performance rankings.

Still, Californians shouldn't feel confined to the state's plan. That's because there's no residency requirement for investing in one, and the state gives no up-front tax deduction for money invested in a 529. So you can use sites like savingforcollege.com to shop for the best plan.

Some parents worry that the money they save will lower the amount their child gets in financial aid. They shouldn't, says Eschleman — less than 6 percent of parental assets are counted in determining financial aid eligibility. In other words, setting aside money that grows tax-free brings far more benefits than doing nothing and hoping Congress, or a lottery ticket, will somehow make college costs go away before your child gets ready to apply. — Steven Yoder

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