Finding money for college — right now

Wealth Management

Seven places to look if you need to come up with money soon

Your paycheck

If you can afford it, applying part of your paycheck is probably the easiest route. There are no paperwork or tax implications, and you can leave your retirement accounts and life insurance working toward other important goals.

The drawback — The constant outflow of cash for four years may leave you financially unable to invest for other goals.

Your savings and investments

If you have a savings account, there are no time-consuming applications to fill out, or tax implications if you make withdrawals, making it a somewhat easy source of funding. And if you have a 529 college savings plan, all you need to do is notify the administrator that you want to make a withdrawal and follow any other rules outlined in your plan to gain access to funds.

The drawback — Liquidating investment assets may have consequences. To choose the most appropriate strategy, you need to look at rate of return, future prospects, potential capital gains (or losses) and other tax consequences.

Your home

If your home has appreciated in value, you can use a home equity loan to pay for college expenses. The main advantage of a home equity loan is that interest payments are usually tax deductible.

The drawback — Because the loan is tied to your house, your lender can foreclose on your home if you default.

Borrow against qualified investments

Consider leveraging your qualified investments by borrowing against them with an RBC Premier Line of Credit with LIBOR-based borrowing rates. LIBOR is the interest rate that the world's largest international banks charge each other for loans. Generally, the LIBOR rate has been lower than the prime rate.

Your life insurance

If you have a cash value life insurance policy, you can make a withdrawal from or take out a loan on the cash value. For more information, contact your financial advisor.

The drawback — Withdrawals decrease the value of your death benefit, and if you die with an outstanding loan against your policy, your benefit is reduced by the amount of the loan and interest. Again, for more information, contact your financial advisor.

Your good credit

If the risk associated with a home equity loan makes you uncomfortable, you could consider obtaining a personal (unsecured) loan from a private institution. And, if you are looking for a loan that is college-specific, you may be able to borrow up to the full cost of your child's college education, minus any financial aid he or she receives, under the federal government's Parental Loans to Undergraduate Students (PLUS) program.

The drawback — To qualify for loans, you will need to pass a credit check, and you are likely to need a good credit history to be approved. This route would also not be tax deductible.

Your child's assets

Your child may be able to help. Did he or she receive savings bonds or other financial gifts for birthdays or holidays over the years? If your child has savings, a portion could be used to help cover college expenses. In addition, your child could get a summer job or a part-time job during the school year to help pay some of the college bills. Having your child contribute financially to his or her education will help him or her gain a deeper appreciation of the experience.

The drawback — Getting a good education should be your child's top priority during the college years. Make sure that if your child is working, the time spent on the job does not interfere with his or her studies.

Your retirement savings

If you take a distribution from a Traditional IRA or ROTH IRA before age 59½ to pay for qualified education expenses for you, your spouse, your children or grandchildren, you avoid the 10% premature distribution penalty.

The drawback — If you have a traditional IRA, you will still owe taxes on the distribution. If you have a ROTH IRA, the distribution will be tax free if the amount is less than what you have contributed to the account. You'll only owe tax if you dip into the earnings. (However, once you reach age 59½ and you have held your ROTH IRA for more than five years, even the earnings are tax free.)

Defined contribution programs at work, like a 401(k), generally don't offer the college education exemption. To take a distribution from these retirement assets would mean paying a 10% penalty before age 59½ and you will pay income tax on the distribution and penalty, regardless of your age.

Because tapping your retirement savings can reduce the amount of money you may have available in the future, financial advisors often recommend using your retirement assets for one purpose only: funding your retirement.

Federal student aid

Fill out the FAFSA with the U.S. Department of Education at www.fafsa.ed.gov — even if you don't think you will get any money. More than $150 billion is awarded every year in federal grants, loans, and work-study funds to more than 13 million students.

For more information regarding college savings plans, please visit www.collegesavings.org. Participation in a 529 Plan does not guarantee the investment return on contributions, if any, will be adequate to cover future tuition and other higher education expenses. State programs vary, therefore you should carefully review individual program documents before investing or sending money. Federal income tax on the earnings and a 10% penalty on distributions for non-qualified expenses may apply. RBC Wealth Management is not a tax advisor. All decisions regarding the tax implications of your individual investments should be made in connection with your independent tax advisor.

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