



Educational Savings Guide – Article #1 Getting Started

By Harold Simankys, *Educational Investment Advisor*

A college education may be the best investment a person can make, but it does come at a steep price. The average cost today for four years at a private university runs about \$120,000 when you factor in tuition, room and board, and general expenses. Even a public school education can cost about \$50,000. And the shocking fact is that these figures will seem like chicken feed for parents of a new baby. The tab to put your child through an average four-year private college is likely to be more than \$250,000!

Don't even entertain the hope that these numbers might magically drop in the years ahead. They won't. Wondering, then, how any but the most well-to-do can expect to pay for their children's education? Take heart! It really is within your means, and we are going to show you how to do it.

To begin, here's the most important advice anyone can give you: Start saving as soon as possible. You'll be sorry if you don't. By starting on the day your baby is born, you can cover a \$250,000 college bill by saving \$600 each month. If you wait until she's 10 years old, that sum ratchets up to \$2,000 a month. And, amazing but true, if you wait until she's 16 – you will have to save an astronomical \$10,000 a month to catch up.

But wait – there is some good news. First of all: Financial aid is available. According to the Department of Education, 63 percent of all undergraduates enrolled in 2003–04 received some type of financial aid, and this number keeps going up. At the same time, it's very important to be aware that the amount of assistance you receive is a product of how you save. Part of this series will focus on the best way to save for college to ensure you receive the financial aid you deserve.

Other good news: There are also many new and innovative programs to help families like yours. Education savings assistance is now offered by multiple sources, from federal and state governments to mutual fund companies to colleges themselves. In fact, as you'll discover, there are a bewildering number of possible paths to take. From 529 Plans to Coverdell Education Savings Accounts to Custodial Accounts. Even IRAs. Parents who conduct even the slightest bit of research into the different plans can expect to be bombarded with literature touting their merits – and in the end, you still won't know which one is best for you. It's not an exaggeration to say that you virtually need a college degree to figure out how to pay for one.

Pure and simple, the point of this series is to help you make sense of the many choices out there and to point you toward the best way to save for your child's college education. **More than anything else, you will learn you don't need to be a member of Bill Gates' immediate family to pay for college.** Yes, the costs are high, but there are multiple plans

and products to make college an achievable goal for any family. In these articles you will learn what programs are available and how to choose the right one for your particular situation.

If your baby is still in diapers, it's an ideal time to begin planning and saving for college. But even if your children are older, don't believe for a minute that it's too late to plan. Some simple planning can go a long way in helping you properly structure your investments to reduce your tax burden and maximize financial aid. In this series, we will discuss how to do that.

We will also show you how to involve others in saving for your student's education. Right now there are some golden opportunities for grandparents to participate, and possibly gain a tax break or reduce their estate taxes in the bargain.

Let's get started!



Educational Savings Guide – Article #2

Costs, Financial Aid and Saving

By Harold Simankys, *Educational Investment Advisor*

There are three elementary but vital questions you must ask yourself if you have children who someday will be going to college:

- How much is school going to cost?
- How much financial aid can we expect?
- How much should we save?

And the answers are:

- A lot.
- Not as much as you would like.
- A lot.

All too true, unfortunately! And worse, costs will only be going in one direction – up, up, up – in the years to come. I can't emphasize too strongly how important it is to start planning and saving right now – even if your kids are still babies.

It's possible to get a fairly decent understanding of how much the tab for college will be. Any number of books, calculators and worksheets are available to help with that (including a free worksheet at my website, www.CollegeCostsHowMuch.com). Understanding the numbers will give you a sense of how big a challenge your family will be facing.

I'll admit – the numbers can be paralyzing. So let's dip into the basics about where they come from and how best to plan.

1. How much is school going to cost?

Much of the cost depends on what kind of school you select. State-run colleges are less expensive than private colleges – if your child qualifies for in-state residential status. Two-year community colleges are cheaper than four-year universities. Tuition is the heaviest component of the college tab, but don't forget about room (where your child lives at college), board (the food he consumes while there), books, travel expenses (to and from school) and various school fees – not to mention a little extra for the occasional night out to blow off steam after finals. It all quickly adds up.

In 2006-2007 the average total cost per year to attend a four-year public university was \$12,796 for an in-state student. It was \$30,367 for a four-year private university. At the most expensive private institutions, the price tag has already reached \$50,000 a year. According to the College Board, if college costs grow at only 5 percent annually, by the year 2024 the total

cost of a four-year college education could average about \$125,000 at public universities and \$300,000 at private schools.

While these numbers can be extremely daunting, it's important to keep in mind that financial aid is available for eligible students and it can go a long way toward easing your burden.

2. How much financial aid can we expect?

The classic answer most financial aid professionals give to that question is: "More than you thought, but not as much as you'd like." If you plan wisely, this answer may be accurate for your family. However, if you've been lax in planning, it's likely you will be greatly disappointed by the financial aid process.

Of all the topics involved in saving for education, financial aid is likely to be the most complex, so we'll devote the entire next article to explaining how it works and what options you might have. In the meantime, it is worthwhile to understand the basics.

A good rule of thumb for computing financial aid is to take 20 percent of your top-line income (before any deductions) and add 5 percent of your assets (not including your residence). This amount is a very rough approximation of how much you will be expected to spend per year for your student's education.

Here's an example. If you make \$100,000 per year and your assets are worth \$200,000, universities would expect you to cough up \$30,000 (20 percent of \$100,000, plus 5 percent of \$200,000).

In this example, if your child goes to one of the more expensive schools with a price tag of \$40,000 per year, the school would provide \$10,000 in aid while expecting you to spend \$30,000. On the flipside, if your child goes to a state school that costs \$20,000 per year, there would be no financial aid. The reason: According to colleges and universities, you have the capability to contribute up to \$30,000 per year for tuition, which completely covers the expense.

3. So ... how much should we save?

Simply put, you should save an amount equal to the total out-of-pocket expenses for four years of college per child. If you're unlikely to qualify for financial aid, this will be the whole shebang – tuition plus extras. If you're likely to qualify for assistance, savings should equal your Expected Family Contribution, a term that refers to the amount left for you to pay after you receive financial aid.

To determine the exact amounts, consult the books, worksheets and calculators I mentioned earlier. Most people will be looking at a savings goal of at least \$500 to \$1,000 a month. Ouch, right? But keep in mind that you're starting to save for one of the most important investments you will ever make. Just be forewarned – it is going to take a lot of money.



Educational Savings Guide – Article #3

Financial Aid: A Primer

By Harold Simankasy, *Educational Investment Advisor*

If you're considering financial aid to help pay for your offspring's education, you won't be alone. According to the Department of Education, 63 percent of all undergraduates enrolled in 2003–04 received some type of financial aid, and this number keeps going up. In this article, we cover some of the basics of how financial aid works.

First, let's define it. Financial aid is any type of assistance used to pay college costs that is based on financial need. It generally comes in one of these three forms:

- **Grants and Scholarships**
Also called gift aid, grants don't have to be repaid and you don't need to work to earn them. Grant aid comes from federal and state governments and from individual colleges.
- **Loans**
Most financial aid comes in the forms of loans — aid that must be repaid. Loans are common, making up nearly 54 percent of all financial aid. Most need-based loans are low-interest and sponsored and subsidized by the federal government, which means no interest accrues until after graduation.
- **Work-Study**
Student employment and Work-Study aid help students pay for education costs such as books, supplies and personal expenses. Work-Study is a federal program that provides students with part-time employment.

The Family's Contribution

The big question, of course, is how much of this aid you can depend on. One of the basic premises of college financial assistance is that families of students must take responsibility for as much of the cost as they can. This is referred to as the Expected Family Contribution (EFC), and it can be thought of as the out-of-pocket money you and your child must pay for school. Financial aid can help bridge the gap if your EFC cannot cover all the costs.

The federal government and most universities compute the EFC through a formula keyed to both the student's and the parents' available income and assets. (Available income generally means total income minus a number of different allowances.) In calculating financial aid, the formula stipulates that the following percentages of income and assets be used for college expenses in any single year:

- 35 percent of a student's assets
- 50 percent of a student's income
- 2.6 to 5.6 percent of a parent's assets
- 22 to 47 percent of a parent's income

The percentage contributions for parents vary depending on economic status and age. Lower-income families and older parents are expected to pay less; higher-income families with younger parents are expected to pay more.

Even at this simplest level, the formula reveals a very important point: **To maximize financial aid, it is far better for any savings to be in the parent's name than in the student's name.**

A Rough Cut

To get a sense of how much financial aid you're likely to receive, take 20 percent of your top-line income (before any deductions) and add 5 percent of your assets (but don't include your residence). This sum provides a rough idea of how much you will be expected to spend for each year of college.

As an example, if you make \$100,000 a year and have \$200,000 in assets, a university will expect you to spend \$30,000. If your child goes to a school with a price tag of \$40,000 a year, you will still be expected to pay \$30,000 but financial aid will provide the other \$10,000. On the flipside, you will get no financial aid if your child goes to a school that costs just \$20,000 a year. The way colleges see it, if you're capable of contributing up to \$30,000 for tuition, you can handle the whole burden without their help.

Making Every Penny Count

A discussion of financial aid invariably leads to the question: "Won't saving for college just hurt my chances of receiving financial aid?" The short answer is yes, but only by a very, very small amount.

Let's take a closer look at the numbers, because the right kind of planning can really pay off. As a parent, you can see from the formula that your assets are "taxed" at only 5.6 percent a year. This means that only about 20 percent of your assets in total are judged accessible for paying for college over the course of four years of school.

That's not all. Under current rules, a large portion of a parent's assets is deemed "protected" from being used to pay for college. The amount protected is based on the age of the older parent, with the benefit increasing with age. Here's an example of how that works. If a two-parent family has \$100,000 in assets and the older parent is 55, \$50,300 of the assets will be protected. This means \$49,700 will be "taxed" at 5.6 percent, for a total contribution to the cost of school of only about \$2,800, or less than 3 percent.

As all of this goes to show, **the notion that a dollar saved for college equals a dollar lost in financial aid is far from correct.** But in any case, the issue of financial aid should not stop you from saving. What you gain in overall financial health more than makes up for diminished college aid.

What we have tried to do here is provide some basic information about how financial aid works. Needless to say, there is other important information we are unable to include. If you still have questions, there are numerous resources available out there to help you understand these issues better.



Educational Savings Guide – Article #4

What is the Right Way to Save?

By Harold Simanksy, *Educational Investment Advisor*

In the last few articles I talked about how much college is going to cost and how much financial aid your student is likely to get. If you don't yet have a specific number in mind as to how much you should save, you should. There are numerous calculators and worksheets online that can walk you through that process.

Of course, knowing this number is only the first step. Now you have to figure out how you are actually going to save the money you will need. Here you generally have two choices: taxable accounts and tax-advantaged accounts.

Taxable accounts usually refer to traditional savings vehicles on which you pay taxes every year. They include:

- Mutual funds
- Stocks
- Bonds
- Certificates of deposit

With tax-advantaged accounts, you do not have to pay taxes on any of the earnings on the account (i.e., the capital gains, dividends or interest earned on your investments.) Tax-advantaged accounts include:

- Coverdell Education Savings Accounts
- 529 Savings Plans
- Retirement accounts
- Custodial Accounts, also known as UGMA/UTMA accounts

The best choice for most people saving for education is likely to be a tax-advantaged account because you'll end up with more money. Putting \$1,000 in a tax-advantaged account on the day your baby is born will yield nearly \$4,000 18 years down the road, assuming an 8 percent rate of return. Investing \$1,000 in a taxable account would bring less than \$3,300 over that same number of years, assuming a 15 percent tax rate.

Before you pour all your money into a tax-advantaged account, however, be warned. If you don't end up using the money for its designated purpose – either education or retirement – not only will you pay taxes on the money but a 10 percent penalty to boot. So if you are not certain the money you save will definitely be used for education, a taxable account is likely your best choice.

Before You Make That Choice, However ...

Let's first answer the all-important question: "How will saving affect the financial aid we get?"

We can't emphasize this point enough: **Keep as little savings as possible in your child's name.** This is because those accounts will do the most harm when you go looking for financial aid. Accounts in a parent's name will affect the amount of financial aid far less. Accounts in a grandparent's name or someone else's name will have almost no effect.

Based on this information, and because of quirks in the rules about who the account owner is deemed to be, the different accounts will have the following effects on financial aid:

Greatest Reduction in Level of Aid

- Custodial Accounts (UGMA/UTMA)
- U.S. Savings Bonds, if issued in student's name
- Traditional investments, if in student's name

Moderate Reduction

- 529 Savings Plans owned by parents
- Coverdell Education Savings Accounts with parent as "responsible individual"
- U.S. Savings Bonds owned by parents
- Traditional investments owned by parents

Smallest or No Reduction

- Retirement accounts held by student or parent
- 529 Savings Plans owned by grandparent or other person for the benefit of the student
- Direct tuition contribution, if someone else pays the student's tuition. This has no effect on financial aid and is also fully exempt from any gift tax restrictions. (Caveat: Such a gift tax exclusion only applies to tuition payments, not payments for room and board.)

Based on both tax ramifications and financial aid impact, you can start deciding which plan is best for you. We start doing that and making recommendations in Article Five.



Educational Savings Guide – Article #5

Which Plan is Best for You?

By Harold Simankasy, *Educational Investment Advisor*

There are a number of plans to help you save for your children's education, but the first investment you need to make is saving for your own retirement. Unlike for college, you cannot borrow for retirement, and there is no financial aid for the over-65, Florida-bound crowd.

Because of this, **don't even think about saving for education if you haven't adequately funded your retirement yet.** "Adequately funded" generally means that your current savings plus future expected contributions will generate enough income to maintain your desired lifestyle when combined with any other money you will be receiving, for example Social Security.

Here's a second crucial point to consider: **Unless you're prepared to use college savings solely for education, you should not consider any of the education-focused plans.** The reason being: If you find you have to spend the money for something else, you will have to pay taxes on it and face a penalty. So if you can't be sure what the money is going to be used for, a taxable account like a mutual fund or certificate of deposit is likely to be your smartest move. You won't get a tax break, but at least you can spend the money on whatever you want without worrying about penalties.

Now let's take a closer look at your choices. If you have fully funded your retirement and are prepared to lock in money for education, probably your best bet is a 529 Savings Plan or a Coverdell Education Savings Account (ESA).

The Argument for a 529

While there are numerous differences between 529s and ESAs, the biggest is that a 529 Savings Plan allows you to contribute far more than an ESA. Contributions to an ESA are limited to \$2,000 per year per student, while contributions to a 529 Plan can be as high as \$12,000 per year per contributor. For those wishing to contribute even more, 529 Plans allow a one-time contribution of up to \$60,000 per contributor per student. This means that a couple could put as much as \$120,000 into a 529 account at one time. One-time contributions come with a rule: You cannot give any more money to this student for a period of five years.

Another advantage for a 529 Savings Plan is its flexibility. It is fairly easy to change beneficiaries – or even take the money back – if you as the owner decide you need it for something else. Yes, you will have to pay a 10 percent penalty if the money is not used for education, but that is better than not having access to the money if you really need it.

The Pros and Cons of an ESA

If you are saving money for your child to attend a private primary or secondary school, this is the plan for you. An ESA is the only savings program in which the money can grow tax-advantaged and still be used for private school. The money from a 529 Savings Plan can be used only for college.

Unlike with a 529 Savings Plan, there are income restrictions for contributors to an ESA. Under current law, contributors must have less than \$190,000 in modified adjusted gross income (\$95,000 for single filers) in order to qualify for a full \$2,000 contribution. Of course, there is one way around this issue: Simply gift the \$2,000 to the student and have him or her make the contribution to the ESA. Be warned, however, that the effect this arrangement will have on financial aid eligibility is not yet clear. While ESAs are generally considered the asset of the parent – thus having only a small effect on financial aid – such a gifting arrangement may change this. If this arrangement translates into the ESA being considered the asset of the student, the hit to financial aid may be much larger. Stand by for what the government has to say on this.

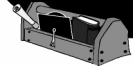
Another important distinction between ESAs and 529 Savings Plans is in the permanency of their status as tax-advantaged vehicles. Under current law, withdrawals from ESAs that are used for education related expenses are free of any tax as long the withdrawal is made prior to January 1, 2011. After that time, all withdrawals from ESA's will be subject to some tax. This is how it used to be for 529 Savings Plans as well, but the law was recently changed so that withdrawals from 529 Savings Plans that are used for education are always tax free: today, tomorrow, in 2011, and beyond. Experts have predicted that a similar tax law change will be made with regard to ESAs, thereby ensuring that withdrawals for education will always be tax free even beyond 2011. While this hasn't happened yet, it should.

The Pros and Cons of UGMA/UTMA

Uniform Gifts to Minors Act Accounts (UGMA) and Uniform Transfers to Minors Act Accounts (UTMA) – frequently called Custodial Accounts -- are convenient ways for parents to save for their children. Unlike education-focused investment vehicles like 529 and ESA, money invested in an UGMA/UTMA can be used for any expense that is related to the child. More important for many parents, it is an easy way to save for a child's future without giving up control over the funds.

These accounts offer significant tax advantages, but there is a serious downside regarding financial aid. They are considered to belong to the student – and thus are “taxed” far more heavily than other investment vehicles we have discussed, specifically 529 Plans. For this reason, I recommend Custodial Accounts only for students who are unlikely to receive financial aid.

Because most people are likely to go with a 529 Plan to save for college, Article Six will be devoted to helping you sort through the options. There are still more choices to make to find the savings plan that makes the most sense for your family.



Educational Savings Guide – Article #6

The Ins and Outs of 529 Plans

By Harold Simankasy, *Educational Investment Advisor*

529 Savings Plans are among the most popular options for families wishing to build a college fund for their children. What's really nice about these state-created investment accounts is that they can be used at virtually any college or university in the country. The main reason? There are so many 529 plans out there! Almost every state offers at least one, and each has its own slightly different rules and requirements. Choosing among them has unfortunately become a confusing and cumbersome affair. Be forewarned that you'll have to do some homework, but here are some tips to make the process a lot more comprehensible.

Tip #1: Start by looking close to home.

Your own state's plan may offer some advantages that out-of-state plans do not. The answers to these three questions will tell you if this is the case.

1. Does my state offer any state tax deduction for choosing its 529 Plan?
2. Does my state offer any matching grant programs for contributions and do I qualify?
3. Does my state penalize residents for investing in another state's 529 Plan?

You can get the answers to these questions by calling the office of your state treasurer or the financial service company that handles your state's 529 Plan. If the answer to any of the three questions is "yes," it is highly recommended you choose your own state's plan because it offers you advantages no other plan can.

On the other hand, if all three answers are "no," you'll want to check out plans sponsored by other states. This is the case for residents of Massachusetts. There is absolutely no financial advantage or tax savings to be gained through the high-fee, state-sponsored plan called the U.Fund, which is offered by Fidelity Investments. If your own state plan offers no advantages, the next important factor in choosing a plan is fees.

Tip #2: Focus on fees.

Many people choose a fund based mainly on its performance, but this is not the best strategy. It is far more worthwhile to look at the fees each charges, with a bias toward low-fee funds.

Here's why. Although performance over time is an extremely important consideration, it is impossible to predict. More often than not, high-performing funds one year will disappoint the next, and vice versa. Over time, nearly all funds will under-perform a comparable index fund. You'll be far better off choosing an index fund and finding one with low fees.

Here are four of the most common fees you will see:

Load/Sales Fee

This is a charge paid on every dollar invested and is generally computed as a percentage (usually two to five percent). You regularly see such fees with broker- or insurance agent-sold plans.

Enrollment/One-Time Fee

This is a fee charged when an initial investment is made and is generally a standard dollar amount.

Annual Fee

This is a fee you pay once a year and is generally a standard dollar amount.

Annual Expense Ratio

This is a fee you pay to own a mutual fund and is generally computed as a percentage of assets under management.

To see how the fees of the plan you are considering compare to two of the lowest cost plans – Iowa and Minnesota – complete the matrix below. (You should be able to easily get the information about the plan you are considering by calling the plan’s toll-free number.)

	State Plan You Are Considering	Iowa State Plan	Minnesota State Plan
Fund Manager		Vanguard / Upromise	TIAA-CREF
Load/Sales Fee		\$0	\$0
Enrollment/One-Time Fee		\$0	\$0
Annual Fee		\$0	\$0
Annual Expense Ratio		0.62%	0.65%

As this illustrates, by choosing the correct plan you can avoid the first three fees altogether and keep the fourth one very small. And this should be your goal when choosing a 529 Plan - low fees!

Tip #3: Be absolutely sure!

For most people, a 529 Savings Plan is going to make the most sense. But there are certain conditions under which it doesn’t make good sense. It won’t be the right choice if:

- **You are not adequately invested for retirement.** You can borrow for college, but not retirement.

- **You are considering a private primary or secondary school.** Only a Coverdell Education Savings Account provides tax benefits for private primary and secondary schools. A 529 Plan does not.
- **Other people will fund a 529 Plan for your student.** A plan owned by a grandparent is more beneficial from a financial aid perspective than a parent-owned plan. This is a particularly good choice if the grandparent lives in a state that offers a tax break for choosing the state plan.
- **You think you might need the money for other things.** If you use the money for anything but education, there's a 10 percent penalty.

While saving for education can be confusing, choosing from among the various 529 Savings Plans out there can be downright mind-numbing. Rather than feeling paralyzed, methodically answer some of the questions that have been outlined above and choose a plan that is right for you. For most people, a 529 Savings Plan (offered by a low-fee provider) is going to make the most sense. But remember it only helps once you've actually put some money into it. So get going and start saving!



Educational Savings Guide – Article #7 Grandparents Can Help!

By Harold Simankysy, *Educational Investment Advisor*

As college costs keep rising, it's a lucky family that can count on a grandparent or two to help shoulder those bills. Actually, this multi-generational sharing of responsibility is happening more and more these days – and quite naturally a lot of questions are popping up about how to go about it the right way. For that reason, this article is devoted to sorting through the different options – with an eye to finding one that's advantageous for you, your kids, and their grandparents.

Funding a child's education is likely to be the best gift you can give as a grandparent. Like parents, you should look into all the savings options - though with a number of additional goals in mind as well, such as estate-planning implications. Grandparents also will probably have more than one branch of future college students in the family to think about - and each of their situations will be different, depending on the finances of their parents and their other grandparents.

Paying the Bill

The easiest way to help out is simply to send a check directly to the educational institution (whether college or primary/elementary school). With this method, you can provide assistance immediately, and there's no chance the money will be used for anything other than education. Student and parents never see the cash.

There are other advantages. This kind of direct contribution is not subject to the annual gift tax exclusion, which is currently \$12,000 per year per person. Whether the tuition is \$1,000 a year or \$100,000, you won't have to pay a gift tax on this amount. In fact, even if you pay a student's tuition you are still free to give him or her a tax-free gift up to the \$12,000 limit. The gift tax exclusion is only for payments of tuition and not room, board, or other education expenses.

Further good news is that the direct tuition contribution made by a grandparent will have little or no effect on the level of financial aid a student receives.

The key disadvantage is that a grandparent won't enjoy any tax savings through this kind of contribution. Until you send off that tuition check, the money remains in your estate and you might end up paying capital gains tax and income tax on it.

Tax-Advantaged Vehicles

Because of the above reasons, some people may find the best choice lies with one of the tax-advantaged investment accounts we discussed in detail in previous articles. As a grandparent, you can use any of these vehicles, and each has certain advantages.

- A Coverdell Education Savings Account established by a grandparent can be used to fund private primary/secondary school.
- A grandparent-funded UGMA/UTMA can be used for education and non-education expenses while providing some tax savings.
- Grandparent-owned taxable accounts can be used for anything.

These accounts, however, raise a whole new set of questions and issues to ponder. Such as: “What if I really want that money later on for travel or as a reserve for medical expenses? What if my grandchild doesn’t go to college and ends up using my money to pay for a BMW? Am I just going to be harming my grandchild’s financial aid package? Can I really afford to give away all this money?”

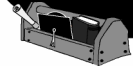
529 Savings Plans

This is where a 529 Savings Plan can come to the rescue. 529 plans are a great tool for a lot of parents, but they’re an especially attractive and friendly option for grandparents.

Instead of giving up all control of the money, which occurs with a gift to an UGMA/UTMA account, the grandparent - as a 529 account owner – continues to have the power to decide when withdrawals are made and for what purpose. Funds can be transferred to benefit a different family member or can simply be taken back, for a modest penalty. Further, you can move a large sum of money out of your estate very quickly while exerting a high level of control.

Unlike with UGMA/UTMA, the student won’t take a large financial aid hit if the grandparent has set up a 529 Plan. In fact, of all the plans we have discussed, under current rules a grandparent-owned 529 Savings Plan will result in the least financial aid impact, having little or no effect on the overall package.

While no savings plan is right for everyone, 529 Savings Plans will likely make sense for a lot of grandparents. And if not a 529 Savings Plan, maybe just paying the bill will work best for your family. Whatever your situation, there are options available to make the gift of education easier for grandparents to give.



Educational Savings Guide – Article #8

Prepaid 529s: Another Option?

By Harold Simankasy, *Educational Investment Advisor*

529 Prepaid Plans offer a different option in saving for college. Not to be confused with 529 Savings Plans, the prepaids allow you to lock in future tuition costs at today's prices. You make the full payment now or pay over time. Then, when your child is ready for college, no matter how high tuition has risen in the meantime - the program takes care of it at any participating school.

While such pre-paid plans are ubiquitous among public colleges and universities, until recently, very few private schools offered a prepaid plan. But this changed with the emergence of the Independent 529 Plan (www.independent529plan.org), which is specifically for private colleges and universities. As with the state-sponsored 529 Prepaid Plans, participants can purchase tuition certificates at current prices – even with a small discount – and then use these certificates at any private college taking part in the program. Currently about 250 private colleges and universities participate in the Independent 529 Plan.

This is considered a tax-advantaged plan because you have made an investment worth a certain amount, have seen that investment increase in value; and yet you haven't had to pay any taxes on this increase in value.

A Look at the Disadvantages

Prepaid plans offer some advantages, including low-risk, guaranteed returns on your investment. But they also come with a catalog of disadvantages, chief among them is a lack of flexibility.

Consider this scenario. You've invested in a prepaid program, but your child decides to attend a college that isn't in the private school consortium - or maybe she decides not to go to college at all. You want to get your money out of the plan, and you might be able to do that - but probably not without paying various fees and penalties that significantly reduce any earnings you would have had on this money.

While some plans will pay some interest on your original contributions, a number of them will not - and invariably the rate of interest that is paid is extremely low. For example, in Massachusetts, you get your contributions back along with interest based on the rate of inflation - which is practically nothing and generally worse than even a conservative investment.

In the past, another serious disadvantage for 529 Prepaid Plans is how they were treated from a financial aid perspective. Happily this is no longer the case. A recent change in the tax law now has 529 Prepaid Plans considered the asset of the parent rather than the student. In this

way, both 529 Prepaid Plans and the more popular 529 Savings Plans have the exact same effect on financial aid i.e., a minimal effect.

At best, a prepaid plan is but a partial solution because you can only use the money for tuition. Given that about 25 percent of a college bill is for room and board, it's likely you will need a second savings plan to cover this piece of the cost. This is why a 529 Savings Plan or a Coverdell Education Savings Account might be a better choice. Both of these programs cover not only tuition but also room and board.

For the right family, a prepaid plan may make sense. If you are a conservative investor with a good sense of where, and whether, your child will attend college, a prepaid 529 merits some investigation. For most families, though, they are the least beneficial of the savings programs we have discussed. Given their inflexibility and low rate of return, it's best to shop around for a more advantageous way to save for college.



Educational Savings Guide – Article #9

Investing Your Money

By Harold Simanksy, *Educational Investment Advisor*

If you've been reading this series of articles from the beginning you have hopefully figured out how much you need to save your children's education and maybe even identified the right savings vehicle for your needs (like a 529 Savings Plan). The question facing you now becomes: "What is the most appropriate way to invest our money – how much should go into stocks, bonds, cash, international investments, or something else?" In many ways, this issue of "asset allocation" is the most important investment decision you make. Here are a couple of tips.

Tip #1: Worry about the mix, not actual assets.

A famous study released a couple of decades back found that the key factor in how investments will perform over time is the mix of stocks, bonds and cash you choose. As it turns out, this mix - or asset allocation - is even more important than most people think.

The study concluded that some 94 percent of an investment portfolio's performance is tied directly to asset allocation. This means that the individual stocks, bonds or mutual funds you pick are a far less important factor than, for example, the decision to choose stocks as a category rather than bonds or cash.

This finding, of course, flies in the face of how people tend to invest. Typically, investors spend an inordinate amount of time choosing among different stocks, stock mutual funds, bonds, or bond mutual funds. The result is running from one "hot" fund to the next, while the entire portfolio suffers. And in the course of this painstaking activity, they miss the more important picture – which is, figuring out the right mix.

Tip #2: Consider your child's age.

The combination of stocks, bonds and cash that is right for your education savings portfolio depends on how old your child is right now and how many years of investing you anticipate. If your child is young, and you have many years of investing ahead of you, you can be more aggressive loading up on more stocks and less bonds. But if your child is only one or two years away from college, stocks are less appropriate for you and you will be better served by holding far more cash and bonds.

Given the importance of asset allocation, below are some recommendations for an appropriate mix. (These recommendations should be viewed as a general guide and not as the rendering of specific investment advice. In general, you will find they look very similar to asset allocations found in most "age-based" portfolios offered by 529 Plan providers.)

Current age of child	0-3	4-7	8-11	12-15	16-18
Stock	60%	40%	30%	10%	0%
Bonds	25%	50%	65%	90%	67%
Cash	0%	0%	0%	0%	33%
International Stock	15%	10%	5%	0%	0%

While some might consider these asset allocations conservative, overall they should serve you well when investing for your child’s education. If you are more conservative in your approach to investing, you might choose to hold more bonds and cash and less stock. Investors wanting a more aggressive approach could hold more stock – particularly international stock – and less bonds and cash.

Once again, the asset allocations suggested here are simply to be used as a guidepost to your investing choices. At the very least, they should prompt you to ask questions about the advice you may receive when allocating your assets and those of your child.



Educational Savings Guide – Article #10

A Final Word

By Harold Simankysy, *Educational Investment Advisor*

As we emphasized at the start of these articles, a college education is the greatest investment you can make – but it is undeniably pricey and this situation is not going to improve as your child grows up. What better argument for getting started on a savings plan as soon as possible?

In our discussion of the many decisions parents like you face in saving for college, we have covered the advantages and disadvantages of a variety of savings programs and showed you some ways to maximize financial assistance and your investments. We could not, of course, touch on all of the savings programs available out there, and two additional options may be worth considering. One is U.S. Savings Bonds, which under certain circumstances are tax-free if used for education. The other is Individual Retirement Accounts, which may be used penalty-free for education.

Saving for college involves making many choices, and making them wisely. We hope these articles have provided you with a useful roadmap as you get that important savings program underway. Here, again, are the basics for managing and achieving your family's educational goals.

1. ***Understand how much school will cost, how much financial aid you will receive, and how much you need to save.***
 - Use a worksheet like the one found at www.CollegeToolkit.com or access one at www.educationalinvestments.com to help you with this process.
2. ***Identify the savings vehicle that best fits your needs.***
 - Start by understanding the difference between a taxable and a tax-advantaged vehicle. If you choose a tax-advantaged vehicle, be sure you are willing to pay a penalty if you do not use the money for education.
 - Whether you choose a taxable or a tax-advantaged vehicle, understand your different options (as detailed in Article Five - “Which Plan is Best for You?”) and see which one best suits your situation.

3. Find a provider for the investment vehicle you have chosen.

- If you are considering a 529 Savings Plan, investigate your own state's plan. There may be state tax advantages. That said, in many state's there is no advantage in choosing the state-sponsored plan, so you are better off in a low cost plan like the Iowa or Minnesota 529 plans.
- Keep costs low. Avoid paying any sort of commission or "load." Look for mutual funds with low expense ratios
- Don't focus on performance. Performance varies from year to year. You will have better luck with a low-cost index fund.

4. Invest the money properly.

- Identify a mix of stocks and bonds that is right for you, based on how old your child is and how many years of investing you anticipate. (See Article Nine - "Investing Your Money" for recommended asset allocations.)

5. Know your limitations.

- Be prepared to hire a financial advisor if you don't feel confident investing, or if you need further assistance

The most important thing is to get started as soon as possible so...

Start Saving!

About the Author

Harold Simansky is the founder of Educational Investments, LLC, (www.educationalinvestments.com) a Registered Investment Advisory firm focused on helping families save for education. Harold's book on this subject, College Costs How Much?! The Workbook to Help You Save for School, which explains the financial aid process, is available at www.CollegeCostsHowMuch.com.