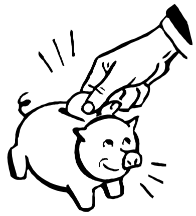

INSIGHTS ON INVESTING

Helping Families Understand Where to Start

READY…SET…SAVE! Not sure what is the best approach? Confused by all of the financial aid and tax regulations? You are not alone. Although many people know that saving for college should be a top investment priority, few know what the best vehicles are and what the specifics are surrounding each. To make it even more complicated, the best approach for one family may not be the best for another!

Outlined here are several of the most popular investment vehicles currently being used to save for college. In this summary, you will find some of the unique highlights of each option, the tax incentives (or disincentives) and the current treatment of each according to the Federal Methodology used to determine many forms of need-based aid. This information is meant to serve as a guide for those considering their college savings options. Consult your financial planner and/or tax advisor before making <u>any</u> investment decisions.

IMPORTANT NOTE: It is essential to evaluate each option in the context of ***your*** anticipated financial aid situation. For those families for which the Expected Family Contribution (EFC) is greater than the cost of attendance at the student's college or university of choice, the financial aid implications **should not** be the driving force behind investment decisions. However, for those families who **are likely to show financial need** at the college or university of choice (meaning the EFC is less than the cost of attendance), the financial aid consequences **should** be a consideration in many cases. Check out your *College Costs Estimator* report to find your estimated EFC and compare it to the costs of the colleges your student might consider to find out where you stand, and remember – the rules, regulations and formulas used in figuring all of this change annually, so it is important to review your situation and the latest information on a regular basis.

EXAMPLE

	School A (total cost of some in-state public universities including room & board, tuition and fees)	**School B** (total cost of many private colleges and out-of-state publics including room & board, tuition and fees)
Cost of Attendance	**$18,000**	**$30,000 +**
EFC	**$20,000**	**$20,000**
Financial Need	**No Financial Need**	**$10,000 + of Financial Need**
	Financial aid implications should not be the driving force in investment decisions	**You may want to consider the financial aid implications along with tax consequences when making investment decisions**

It is crucial to remember that need-based financial aid is determined each and every year a student is in college, which makes it necessary for families to consider all of this in the context of aid eligibility over the course of a student's college career. Will there be years with additional siblings in college which may increase aid eligibility for each student because the Parent Contribution portion of the EFC will be divided among the children in college? Is the student uncertain of the college (or type of college) he/she wants to attend, therefore making it difficult to know the cost of attendance and whether or not the student will show need at the college of choice? Are your employment, and consequently your income, likely to change significantly between now and when the student goes to college? These are important questions to consider. While you may not have all the answers now, continue to revisit these questions and consider the implications of all possible answers.

Additionally, remember that not only are there great ways to save for future college costs, but there also are ways to make the years in which those bills have to be paid a little easier. Check with your accountant to be sure you are claiming all applicable tax benefits such as the refundable **American Opportunity Tax Credit** and the **Lifetime Learning Credit** for your out-of-pocket higher education expenses; the same goes for the **Student Loan Interest Deduction** if you end up borrowing money to help pay part of the costs and the **Tuition & Fees Deduction**.

There also are other options at parents' disposal when it comes to meeting the required costs expected of the family. Taking advantage of the federal PLUS loan program for parents, utilizing universities' extended payment plans, borrowing against cash values in life insurance policies or other assets (when necessary) are only a few of the creative possibilities.

Remember – the most essential piece of all of this is actually taking the steps to plan financially for the future. Make your decisions based upon the best, most complete information available at the time, keeping in mind the total picture (short-term vs. long-term implications, potential aid eligibility vs. tax liability, etc.). Always consult your financial planner and/or tax advisor on the overall tax consequences of all investment decisions, and be sure to revisit these considerations at least once a year, especially if college is a ways off. And of course, call The National Center for College Costs toll free at (877) 687-7291 (or email at info@collegecosts.com) if you need to know how those decisions may affect your financial aid under the current financial aid rules and regulations.

VEHICLE	OVERVIEW/HIGHLIGHTS	CURRENT TAX RULING	CURRENT TREATMENT UNDER FM
Coverdell Education Savings Accounts **For more information on the tax benefits of this and other education savings options, visit:** **www.irs.gov/pub/irs-pdf/p970.pdf**	♦ Accounts must be set up for children under age 18; no contributions allowed after age 18; must be distributed for use by beneficiary by age 30 (waived if beneficiary meets "special needs" designation) ♦ Total maximum contribution per year per child (regardless of number of accounts or number of contributors) = up to $2,000 ♦ Current phase out on contribution eligibility – modified AGI[1] limits begin at $95,000 for individuals and $190,000 for married couples who file jointly (maximum upper limits = $110,000 – single, $220,000 – joint filers) ♦ Withdrawals can be used to cover many elementary and secondary school expenses (in addition to higher education expenses), e.g., tutoring, computer equipment, room & board, uniforms, etc. ♦ Beneficiary can be changed to another family member	♦ Earnings are exempt from federal income taxes until disbursed; withdrawals also are tax free if used to cover qualified elementary, secondary or higher education expenses[2] at an eligible institution[3] (including contributions to a qualified Section 529 plan in the same tax year) ♦ American Opportunity Tax Credit or Lifetime Learning Credit can be claimed in the same year as a tax-free distribution from a Coverdell ESA if used for **different** qualified expenses ♦ 10% penalty on earnings if not used to cover qualified education expenses[2] ♦ Withdrawals in excess of qualified education expenses are taxable to the beneficiary	♦ Considered the **asset of the account owner** (not the beneficiary) and subject to the parent asset rules under the formula unless owned by someone **outside** the student's household [4]
Section 529 Plans (Prepaid Tuition and College Savings Plans) **For more information check out the following sites:** **www.collegesavings.org** **www.savingforcollege.com**	♦ Two types: 1. **Prepaid Tuition Plans** – purchase of tuition units today to cover tuition in the future – some states' plans limit purchase of tuition to in-state colleges 2. **College Savings Plans** – money invested to cover qualified higher education expenses[2] at any qualified college or university for beneficiary in the future ♦ Typically all states offer one or both types of Section 529 plans and individuals can select a home state plan or open an account in another state; colleges also can create 529 prepaid tuition plans that allow purchase of university tuition credits years ahead of time, the largest of which is the Private College 529 Plan ♦ States (including Indiana) often offer a tax benefit (either a tax deduction or credit for contributions in a calendar year) for investing in a home state's plan ♦ Anyone can establish an account for a given student; anyone can contribute to that account (although some plans may restrict who can make contributions); there are no household AGI limits restricting who can contribute to such accounts ♦ A student can be the beneficiary of more than one account; beneficiary can be changed to another member of the family at owner's discretion (including first cousins); the aggregate total of all account values for a given beneficiary is subject to the maximum contribution limit designated by each state's plan ♦ College Savings Plans are typically administered by third-party money managers so account owners have no control over *individual* investment decisions; investment strategies & the number of investment options vary between plans, as do fees and performance results; one annual rollover to another 529 plan is allowed without penalty ♦ Maximum total contributions are set by each state; many plans have maximums of $300,000 or more; many plans can be used for both undergraduate and graduate expenses	♦ Earnings and distributions are not subject to federal income tax if withdrawn to cover qualified higher education expenses[2] at eligible institutions[3]; earnings and withdrawals also are exempt from state income tax in many states ♦ Some states provide a tax deduction or credit for contributions and some allow tax-free earnings (some offer both); these provisions often only apply if you choose to invest in the plan in your home state (so check with your state for more information) ♦ Contributions/gifts subject to federal gift tax rules ($14,000 current maximum gift to any one person per year without gift tax); however, a one-time individual gift of $70,000 can be made to Section 529 plans with no gift tax implications (but no additional contributions can be made for 5 years following the one-time gift) ♦ Contributions can be made to a Section 529 plan in the same year as contributions to a Coverdell ESA for the same beneficiary ♦ 10% penalty on earnings if not used for qualified higher education expenses[2] in addition to tax on earnings at regular income tax rate ♦ Withdrawals in excess of qualified education expenses are taxable to the owner or beneficiary – you get to choose who receives the money	♦ Considered the **asset of the account owner** (not the beneficiary) and subject to the parent asset rules under the formula unless owned by someone **outside** the student's household [4] ♦ Current market value of 529 savings plans should be reported at time of financial aid eligibility determination (FAFSA filing) ♦ Current redemption value of 529 prepaid tuition plans should be reported at time of financial aid eligibility determination (FAFSA filing)
Uniform Gifts to Minors Act (UGMA) / Uniform Transfer to Minors Act (UTMA) Accounts	♦ Custodial accounts established for children to provide a savings vehicle with tax advantages that enables parents (or others) to save for future expenses for a particular child ♦ Established for minors by adults (typically parents) who act as custodians of accounts until the age of majority (18 or 21 depending on state) ♦ At age of majority, student is entitled to trust (no change in beneficiary allowed) and money is available for use at student's discretion (to buy a car, take a vacation or pay for college!) ♦ No limit on contributions ♦ UGMA and UTMA accounts can be transferred to a section 529 plan. The Section 529 plan should be titled the same as the UGMA/UTMA account. The custodian is not permitted to change the beneficiary of the section 529 plan.	♦ Tax liability lies with minor – "kiddie tax" rules apply ⇒ Earnings on first $1,000 in unearned income are tax free ⇒ Earnings between $1,000 and $2,000 are taxed at child's rate ⇒ Interest income above $2,000 is taxed at parent's rate if child is less than 19 years old (or 24 if full-time student) ♦ Individual gifts over $14,000 in a given year are subject to federal gift tax (2014 limit)	♦ **Considered a student asset** (even if access is restricted until age 21) and is subject to student asset rules[5] under formula ♦ Court-restricted trusts for specific purposes typically are not considered (e.g., trusts established as a result of an accident/settlement)

VEHICLE	OVERVIEW/HIGHLIGHTS	CURRENT TAX RULING	CURRENT TREATMENT UNDER FM
Roth & Traditional IRAs	♦ Current maximum contribution per year = $5,500 (total contributions between both traditional and Roth IRAs) + "catch-up" contributions ($1,000) for those over 50 ♦ Roth contributions are made with after-tax dollars; traditional IRAs allow pre-tax contributions ♦ Roth (only): Current phase out on contribution eligibility – **modified** AGI[1] limits for 2014 begin at $114,000 for individuals and $181,000 for married couples who file jointly (maximum upper limits = $129,000 – single, $191,000 – joint filers) ♦ Traditional (only those provided through an employer are subject to tax deductibility income limits): current phase out on the tax deductibility of traditional IRA contributions – AGI limits for 2014 begin at $60,000 for individuals and $96,000 for married couples who file jointly (maximum upper limits = $70,000 – single, $116,000 – joint filers)	♦ Full amount of distribution is subject to income tax for a traditional IRA for withdrawals made before age 59 ½; only the earnings portion of these distributions is taxable for a Roth ♦ Additional 10% penalty for early withdrawal (before age 59½); can be waived if used for qualified higher education expenses[2] incurred by the account owner or the owner's spouse, children or grandchildren at an eligible institution[3] in the same year as the withdrawal	♦ Account owner's adjusted gross income (AGI) may increase based on distributions in a given tax year ♦ Tax-deferred contributions made to traditional IRAs in a FAFSA year also are counted as untaxed income
U.S. Series EE and I Savings Bonds **Education Savings Bond Program** **For more information on the Education Savings Bond Program, visit the following website:** **www.savingsbonds.gov**	♦ Federal Bonds issued to investors which accumulate interest over time and provide a tax-advantaged way to save; Electronic Series EE bonds and Series I bonds are purchased at face value and can earn interest for up to 30 years; Paper I bonds can be purchased with IRS tax refund at face value ♦ Maximum purchase amount per calendar year: $10,000 each calendar year for each SSN - $10,000 in electronic EE bonds; $10,000 in electronic I bonds; $5,000 in paper I bonds with your tax refund ♦ Series EE and I bonds issued January 1990 and later are eligible for special tax treatment under the Education Savings Bond Program ♦ Series EE and I bonds issued after January 1990 or later also may be redeemed tax free if proceeds are used to make contributions to a section 529 plan and/or Coverdell ESA in the year redeemed ♦ Current phase out on interest exclusion – **modified** AGI[1] limits for 2013 begin at $74,700 for individuals and $112,050 for married couples who file jointly (maximum upper limits = $89,700 – single, $142,050 – joint filers)	♦ Interest is excluded from federal income tax when used to cover qualified higher education expenses[2] incurred by the bond owner, his/her spouse or his/her dependent (based on tax exemption) at an eligible institution[3] in the year of redemption or if used to make contributions to a Coverdell ESA or section 529 plan (for bonds issued Jan. 1990 or later) ♦ When using bonds for a child's education, the bonds must be registered in the parent (and/or spouse's) name; child can be beneficiary but not co-owner ♦ Interest is exempt from state and local income taxes ♦ Bond **owner** must be at least 24 years old on the first day of the month in which the bond is issued to retain preferential tax treatment listed above ♦ If married, your filing status cannot be married filing separately to claim this benefit	♦ Considered an asset of the bond owner subject to parent asset rules[4] under formula (if bonds are in parent's name); considered a **student asset** subject to student asset rules[5] (if bonds are in student's name) ♦ Current value of bonds should be reported at time of financial aid eligibility determination (FAFSA filing)
Standard Savings & Investment Plans **(Savings Accounts, Mutual Funds, Stocks, CDs, Etc.)**	♦ Accounts can be set up for ownership and used according to contributor's specifications ♦ No maximum contribution limits ♦ Can be invested and used at the owner's discretion	♦ Earnings subject to current federal, state and local income tax and capital gains regulations	♦ Considered the **asset of the owner(s)** and subject to corresponding parent and student asset rules[4, 5] ♦ Interest income may affect the adjusted gross income (AGI) of the account owner(s) in any given year

[1] Modifications are made to Adjusted Gross Income (AGI) before figuring eligibility for certain types of accounts and contributions, including Coverdell ESAs, Roth IRAs, Education Savings Bond Program, among others. Consult your tax advisor regarding specific modifications and whether or not you may be eligible for the various accounts and programs outlined above.

[2] Qualified higher education expenses include tuition and mandatory fees minus any scholarships, fellowships or other outside assistance available to the student to cover expenses. In some cases, room & board (if at least ½ time), books, transportation, computer/technology costs, and other miscellaneous fees also are considered qualified expenses. When researching savings strategies that may work for you, be sure to check which definition applies and which costs can be covered by funds from each type of account. **Important note:** Distributions from accounts cannot be claimed for use in covering the same qualified higher education expenses. Any amount disbursed in excess of remaining qualified expenses will be subject to taxation. Similarly, education credits (American Opportunity Tax Credit and Lifetime Learning Credit) cannot be claimed for the same expenses covered by a distribution from an account that has preferential tax treatment.

[3] An eligible institution for higher education is one that meets the standards for federal financial assistance programs.

[4] Only parent assets **above** the parent asset protection allowance (APA) are considered under the federal formula. For exposed assets (above APA), the "worst case" contribution is approximately 5.6%. See Parent Income and Asset section of *College Costs Estimator* report for more details regarding your APA at the time of your report.

[5] All non-retirement student assets are considered under the federal formula; 20% of all current student assets are required as a part of the Expected Family Contribution for the next academic year.