Advising the Affluent: Education Planning

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Greene Consulting Associates was founded in 1979 and provides consulting and training services solely to the financial services marketplace. Located in Atlanta, Georgia, Greene Consulting has worked with the top providers of investment management and wealth management in both the United States and abroad. Focused on helping firms generate incremental revenue growth through more effective sales and relationship management strategies, Greene Consulting offers customized training programs in Financial Services Sales, a Sales Management program, Presentation Training that integrates proprietary products, and a comprehensive suite of online learning courses related to investments and wealth management.

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Introduction

One of the more significant financial liabilities facing individuals with children is saving for college. Nearly every parent, and in some cases grandparents, cite saving for college as a major financial goal – and rightfully so. Recent studies show that tuition and fees at public universities average $7,000* per year. Worse still are the figures for private education, with average tuition and fees over $26,000** per year. And these costs do not include room and board. It's a wonder that doctors do not greet new parents with, "Congratulations, you've just given birth to a beautiful baby and a $100,000 education liability!"

While many individuals have some understanding of the potential future costs of educating their children, very few understand the various savings options available to them, and fewer still have actually developed a clear and rational education savings strategy. In fact, a recent Harris College Financial Preparedness Poll found that 75% of investors lack basic knowledge of 529 Plans. This one study alone highlights the tremendous opportunity for financial services professionals to work with clients to help them define effective strategies for funding future education expenses.

This course is specifically designed to equip you with the knowledge you need to engage clients in more effective discussions about education savings alternatives and to help them define an effective strategy for them given their unique circumstances.

Objectives

At the conclusion of this course, you will:

- Have an understanding of the various savings alternatives available for education.
- Be familiar with strengths and weaknesses of each alternative enabling you to better identify and communicate appropriate solutions to clients.
- Be equipped with answers to common client questions about education savings alternatives.
- Be able to educate clients on potential tax credits available to them.

**Data comes from www.collegeboard.com*
***From "College Savings Surveys" at http://www.finaid.org/savings/surveys.phtml*

Addressing Three Key Questions: Developing an Effective Education Savings Strategy

Saving for education expenses, whether private elementary and secondary school expenses and/or college expenses, is for many individuals one of the most significant issues in their overall financial plan. Certainly there are a myriad of questions that individuals must consider in developing an effective savings strategy:

- Where will they go to school?
- How much will it cost?
- What's the best way to invest?

Addressing Three Key Questions

However daunting this task may seem, focusing on three key steps will simplify the process and enable you to help your clients develop an effective strategy that reflects their unique circumstances:

1. Identify the future cost of education

2. Identify an appropriate savings vehicle

3. Educate clients on potential tax credits

This course will address each of these key steps, equipping you with the knowledge you need to effectively lead individuals through the education planning process.

Step #1: Identify the Future Cost of Education

Clearly, the first issue that individuals must address is defining how much money must be accumulated to meet future educational expenses. For most individuals, this means understanding how much money will be needed when their children go to college.

The best place to begin is with an examination of current costs. The following table illustrates the average annual costs for higher education:

2009 - 2010 Average College Costs*					
College Type	**Tuition and Fees**	**Room and Board**	**Books and Supplies**	**Personal Expenses**	**Total Costs**
Four Year Public	$7,020	$8,193	$1,122	$3,053	$19,388
Four Year Private	$26,273	$9,363	$1,116	$2,276	$39,028

This table clearly illustrates that saving for future education expenses is not a matter to be taken lightly.

*Data comes from *http://www.trends-collegeboard.com/college_pricing*

Capitalizing on Opportunities: The Necessity of an Education Savings Plan

The rising cost of education makes it increasingly important for affluent clients to have a clearly defined savings strategy. In fact, having a structured education savings plan should be considered a necessity for any client faced with this future liability. However, despite the fact that the relevance of having a plan is intuitively obvious, many affluent clients have not taken the time to address this issue.

The challenge for advisors is how to translate the fact that few affluent clients have an effective education savings strategy into an opportunity to build a relationship. Following are effective questions that will enable you to identify this need and instill a sense of urgency to address it.

Click the icon to view some effective questions.

Effective Questions

- How did your current advisor help you establish a well-structured education savings plan?
- How did they work with you to ensure your plan will enable your children to choose the school of their choice?
- How did they help you define how much you need to save each year to meet your education goals?
- How have they structured your portfolio to ensure you meet your education savings goal?

The pages that follow outline how you can quantify the amount a family will need to save to fund future education expenses, creating the foundation for an effective plan.

Projecting Future Costs

Obviously, education expenses can be significant, requiring individuals to develop a clear and disciplined plan for funding this liability. To define the projected liability will require adjustments to the current costs. This can be accomplished by addressing two key questions. Answering these two questions provides the rate of growth and time horizon needed for making the necessary adjustments to current costs.

Click the icon to learn more about each question.

What is the rate of inflation for tuition expenses?

Answer: Studies conducted by the College Board found that college tuition has increased 3% annually ***in excess of the rate of inflation***, for an average education inflation rate of 6%. Extrapolating this trend forward, it will cost over $400,000 to send a child born today to a private college 18 years from now.

When will my child be enrolling in college?

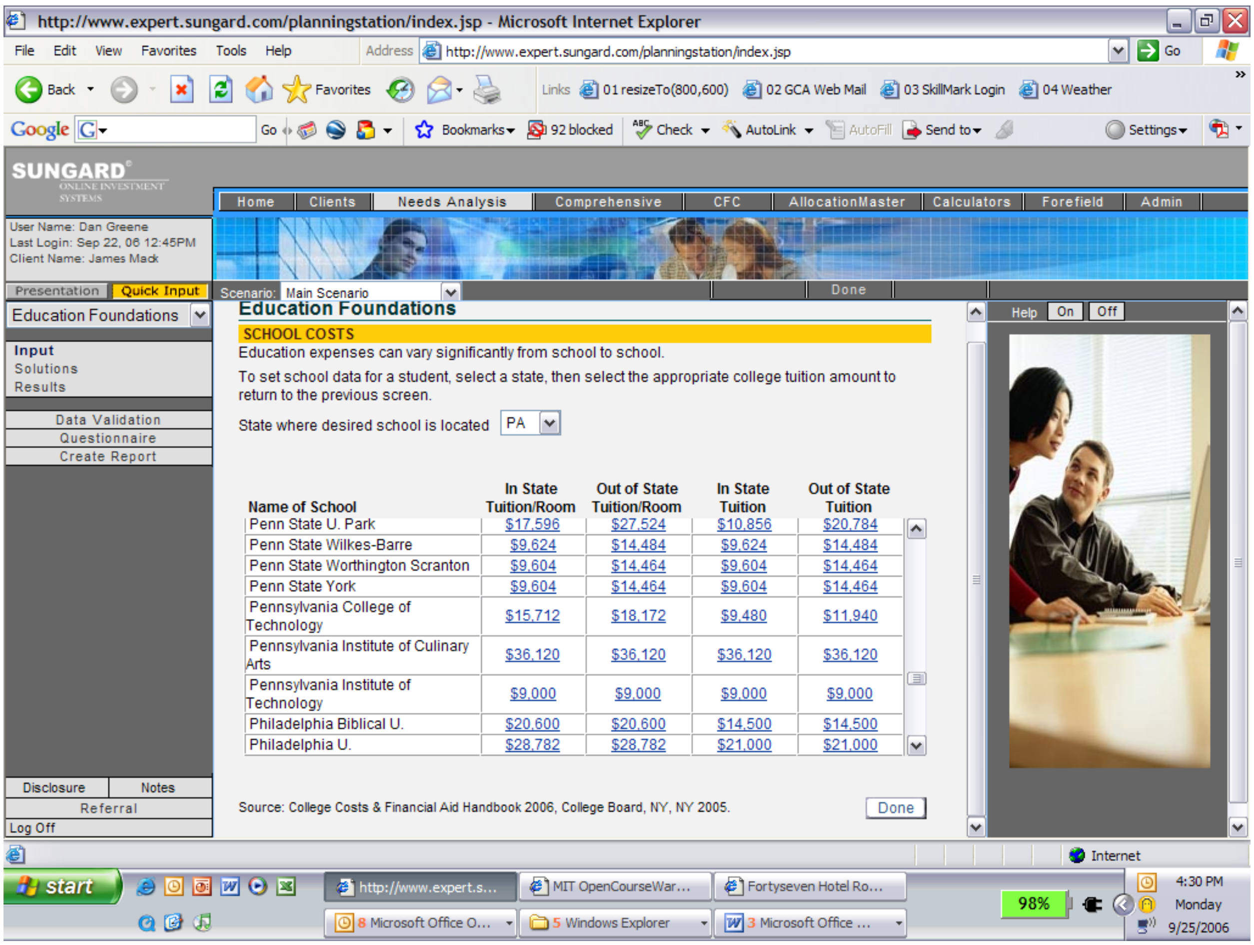
Answer: By subtracting the current age of each child from the estimated initial enrollment age, you can determine the number of years a family has to save. Most individuals begin attending college around the age of 18.

PlanningStation:
Estimating the Cost of Education

The preceding pages outlined an effective approach for estimating future education expenses. However, PlanningStation provides advisors the ability to conduct this analysis in a much more specific and relevant way. In the Education Foundations module, advisors can easily calculate the projected cost of a college education as shown below: **Click each link to learn more.**

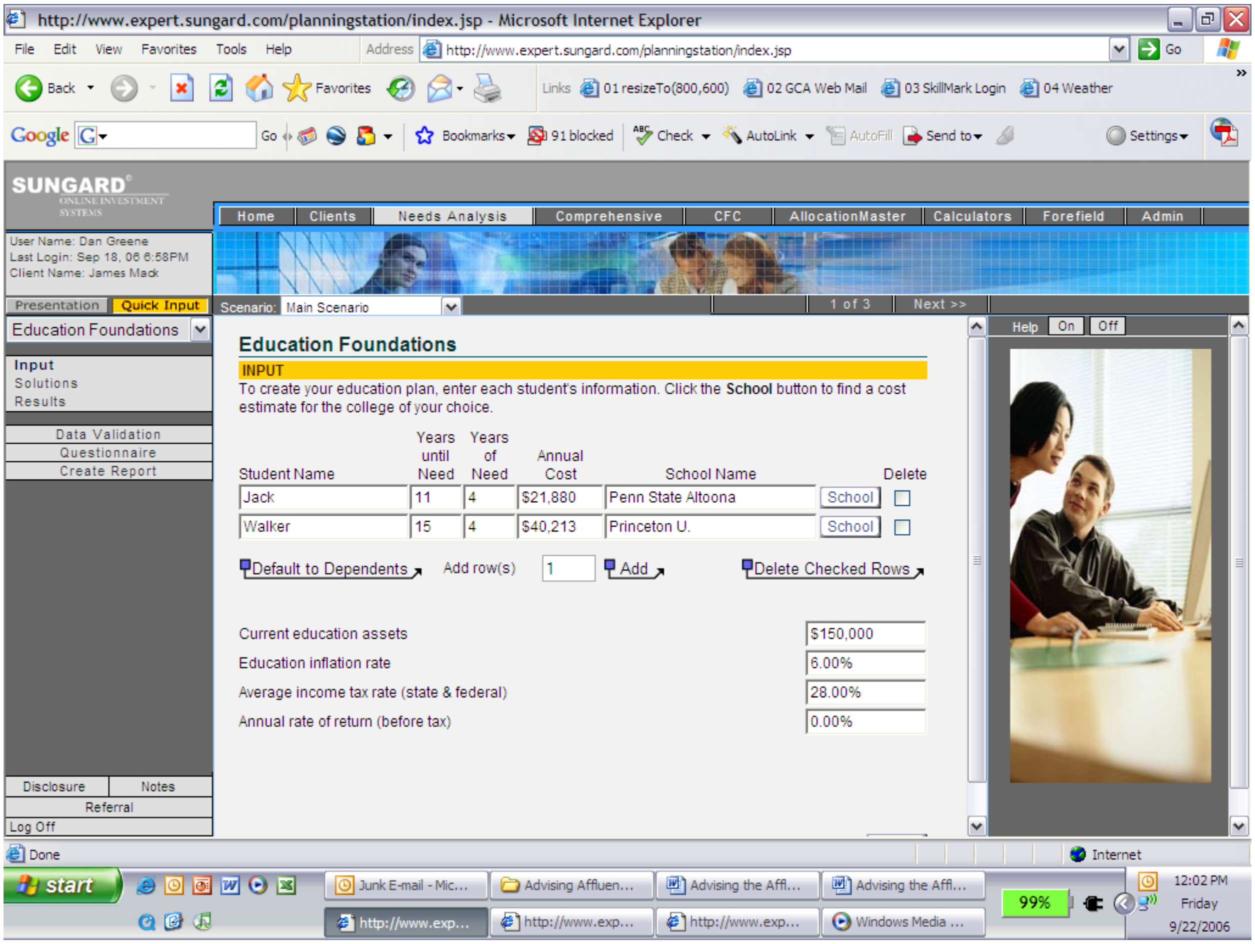
Identifying College-specific Tuition Rates

Advisors can input very specific information about a client's situation, including the ability to use the current education expenses for any college in the United States.



Education Plan Modeling Features

Advisors also have the ability to model the Education Plan based upon customized inputs for variables, including Current Education Assets, estimated Education Inflation Rate, Client Tax Bracket and Estimated Portfolio Return, as shown in the screen shot below. This feature makes it easy for advisors to quickly input key data into the system, model the results of the strategy and, if needed, change the inputs.



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Step #2: Identify an Appropriate Savings Vehicle

The next step is to identify the type of savings vehicle that is appropriate for a client. Often this question is the most complex to address, and thus becomes the focal point of the education planning process.

In order to help clients evaluate their options, advisors must be knowledgeable about each of the alternatives available.

The following pages provide a comprehensive overview of the primary options available:

- Private Investment Accounts
- Custodial Accounts (UTMAs /UGMAs)
- Coverdell Education Savings Accounts (ESAs)
- 529 Plans

PlanningStation:
Evaluating Education Funding Options

The pages that follow provide a brief analysis of the different types of savings strategies/vehicles individuals can use to fund future retirement expenses. Understanding the merits and weaknesses of each of these options will enhance your ability to provide more valuable advice to your clients and prospects.

PlanningStation addresses each of the options outlined in the pages that follow at various levels of depth, providing you a useful tool for both conducting a detailed assessment of your clients' current education savings strategy and helping them understand the various options available to them (such as 529 Plans, Coverdell ESAs, etc…). Following is an example of how education savings options are outlined in materials that can be used in the planning process.

DRAFT REPORT James and Julie Mack

Funding Options

Qualified Tuition Programs are state-operated investment accounts overseen by Section 529 of the IRS code. So long as the state plan satisfies a few basic requirements, special tax benefits are available. Plans differ from state to state and normally are implemented using either prepaid tuition or special college savings plan accounts.

Generally, there are no restrictions on annual contribution amounts. Contributions are not tax deductible, but earnings grow tax deferred, and distributions are exempt from federal taxation if they are used to pay for qualified education expenses (state tax treatment varies). Taxes and/or penalties may be due if these funds are used for any other purposes. Qualified expenses include tuition and books, tutoring, computer equipment, and room and board.

There are no participation restrictions. Parents, grandparents, other relatives and even family friends can open up accounts on behalf of the same beneficiary. There may be, however, a limit on the total dollar amount each account may reach. This varies from state to state.

Assets can be used to pay for qualified higher education expenses at any accredited post-secondary institution in the United States that is eligible to participate in certain federal student aid programs, including public and private colleges, universities, graduate schools, two-year community colleges, and vocational-technical schools.

As a contributor, you retain control of assets until withdrawals are made for qualified higher education expenses. You can change the beneficiary to be another family member of the original beneficiary without paying a penalty.

You can withdraw money from the account at any time. If your beneficiary receives a scholarship for higher education expenses, you may withdraw an amount from your account equal to the value of the scholarship without paying a penalty. You may also make penalty-free withdrawals in the event of the death or disability of the beneficiary. Non-qualified withdrawals of earnings will be taxed as ordinary income at your rate, and an additional penalty equal to 10% of the gain also will apply.

Note that there are fees and charges associated with Qualified Tuition Programs, and that the underlying investment options are subject to market risk.

Take a few minutes to review the pages that follow, equipping yourself with a deeper understanding of the pros and cons of the options available to your clients, focusing specifically on how you would position the merits of each strategy in a client meeting.

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Private Investment Accounts

The most obvious and most often chosen option for college savings is the traditional private investment account. Although traditional investment accounts do offer some advantages relative to other education investment vehicles, they are typically the most tax-inefficient option. Most often, individuals simply choose traditional investment accounts to fund their children's education expenses because they have never been made aware of the alternatives.

Advantages and Disadvantages of Private Investment Accounts

Let's examine some of the advantages and disadvantages of using private investment accounts to fund education expenses.

Click each advantage and disadvantage to learn more.

Advantages

Unlimited Contributions

Unlike some of the other education savings vehicles we will cover, there is obviously no cap on the amount of money individuals can put into private investment accounts. Simply put, individuals are free to save and invest as much as they wish.

Control of Assets

Another advantage of traditional investment accounts as education savings vehicles is the fact that the account owner maintains absolute control over the use of the assets. Most other education savings vehicles have stipulations regarding how the assets in the account may be used and/or transfer control of the assets to the beneficiary at a specified time.

Investment Flexibility

Unlike some of the other education savings vehicles, private investment accounts offer individuals unlimited flexibility in how the assets are managed.

Disadvantages

Lack of Tax Benefits

Private investment accounts are subject to current federal and state income taxes. Other education savings alternatives offer the donor tax-deferred growth in the account and tax-free withdrawals for qualified expenses. Generally, the significant tax advantages offered by alternative education savings vehicles outweigh the flexibility and control offered by private investment accounts, making the vehicles covered in the following pages more attractive.

However, it is possible to somewhat mitigate this disadvantage through investment in qualified U.S. Savings Bonds, where interest is tax-exempt if proceeds are used for qualified tuition and/or fees, provided the bond is purchased by an individual over age 24. However, this option provides only limited growth potential and is only available for individuals whose personal income does not exceed certain limits and is coordinated with other education benefits.

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Custodial Accounts (UTMA /UGMA)

Accounts established under UTMA (Uniform Transfer to Minors Act), effective in 48 states and UGMA (Uniform Gift to Minors Act) effective in South Carolina and Vermont, are custodial accounts used to allow minors to have assets titled in their names but managed by an adult. Upon establishing an UTMA/UGMA, the donor must appoint a custodian who will oversee the account until the minor reaches age 18 or 21 (depending upon the state for UGMAs, 21 for UTMAs), at which time the individual gains full control over the assets.

2009 and 2010 KIDDIE TAX TABLE FOR MINORS	
First $950 of income	0%
Next $950 of income	Single Taxpayer rate
Income above $1,900	The higher of the parents' top marginal rate or the child's tax rate ("Kiddie Tax")

From a tax perspective, income generated in UTMAs/UGMAs is taxed as unearned income to the minor child. But minors under age 19 and dependent full-time students under age 24 with "unearned income" above certain levels (adjusted for inflation) are subject to the "Kiddie Tax," which may result in taxation at the parent's rate. Following is an overview of the tax structure for minors who only have unearned income:

With this tax structure, UTMAs/UGMAs may be more attractive from a tax perspective than private investment accounts (especially for those with children 14 or older), although the level of benefit depends upon individual circumstances.

Advantages and Disadvantages of an UTMA/UGMA

Let's examine some of the advantages and disadvantages of using an UTMA/UGMA as an education savings vehicle.

Click each advantage and disadvantage to learn more.

Advantages

Parental Control Over the Assets
Assets placed into the account remain under the control of the parents until the child reaches the age of majority.

Tax Advantaged Growth
Investment income generated in an UTMA/UGMA generally receives more favorable tax treatment than the parents' private investment accounts, especially if the child is 19 years of age or older (24 if still a student).

Disadvantages

Loss of Control
Parents maintain control over the assets in the UTMA/UGMA until the child reaches the age of majority. At that time, the child assumes full control over the assets in the account, receiving full legal authority to make both investment decisions in the account and distributions for whatever purpose desired. This means that the child will assume control of the assets at about the time they should be in college. The child could then choose to use the money for any purpose, deciding whether to

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pay for college expenses or to buy a new car or to take an extended European vacation.

Limits on Contributions

Transfers to an UTMA/UGMA represent a completed gift and as such may be subject to the Gift Tax. Therefore, parents are limited to gifts/transfers of $13,000 per year ($26,000 jointly) for 2009 and 2010, per child, if they wish to avoid the gift tax.

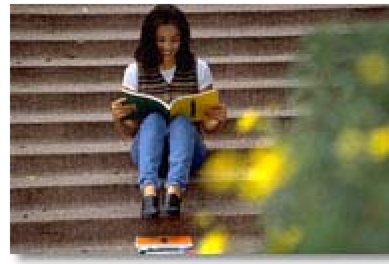
Inability to Change Beneficiary

Unlike some of the other education savings vehicles, the parents cannot change the beneficiary.

Inclusion of Donor's Estate

If the donor and custodian are the same person, the IRS says that this is sufficient control over the assets for the assets to be included in the custodian's estate.

Coverdell Education Savings Accounts (ESAs)



The Coverdell Education Savings Account (ESA) is a relatively new education savings vehicle that is in many ways similar to a Traditional IRA, allowing individuals to set aside up to $2,000 per year tax deferred in an account earmarked for education.

Advantages and Disadvantages of ESAs

The potential advantages and disadvantages of ESAs are listed below.

Click each advantage and disadvantage to learn more.

Advantages

Tax-Deferred Investment Earnings

Income and capital appreciation generated by the investments in a Coverdell ESA is tax-deferred. Income and capital gains taxes will only be paid on any non-qualified distributions from the account. As a result, the assets in the account will grow more than if invested in a comparable taxable account.

Tax-Free Distributions for Qualified Education Expenses

Qualified distributions from a Coverdell ESA are not subject to income or capital gains taxes. Qualified distributions include distributions made to pay educational expenses for:

- Primary education
- Secondary education
- Higher education

If there is a balance in the Coverdell ESA at the time the beneficiary reaches age 30, it must be distributed within 30 days.

Self-Directed Investments

Just as in an IRA, Coverdell ESAs allow individuals to self-direct the investments in the account.

Disadvantages

Limits on Participation

Tax-deferred participation is phased out for single filers with Adjusted Gross Income (AGI) of $95,000 - $110,000 or, for Joint Filers, $190,000 - $220,000.

These limits on tax-deferred participation mean that many high-income earners cannot capitalize on the tax advantages of this type of plan.

Contribution Limits

Another disadvantage is the relatively low limit of $2,000 on annual contributions. For many, $2,000 per year is simply not enough to adequately fund the enormous future costs of a college education as described earlier in this course.

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Special Note about 2011

Unless Congress acts, certain benefits of a Coverdell Education Savings Account will expire after the 2010 tax year. The annual contribution limit will revert back to $500 from the current $2,000. K-12 expenses may not be eligible after 2010. Additionally, withdrawals will not be tax-free in any year in which Hope or Lifetime Learning credit is claimed for the beneficiary.

Review Exercise

Answer the following questions to review the preceding material.

1. One advantage of a Coverdell ESA over a UTMA/UGMA is:

   ○ Coverdell ESAs offer higher annual contribution limits

   Incorrect. Try again.

   ○ Unlike UTMA/UGMAs, assets in Coverdell ESAs can be used for elementary and secondary institution education expenses

   Incorrect. Try again.

   ● Coverdell ESAs offer parents greater control over the assets in the account because they can remain in the account until the beneficiary reaches age 30

   Correct.

   ○ Participation in Coverdell ESAs are not subject to phase outs based on parents' AGI

   Incorrect. Try again.

2. According to the College Board, inflation of college costs is typically in the ______ range.

   ○ 3%

   Incorrect. Try again.

   ○ 5%

   Incorrect. Try again.

   ● 6%

   Correct.

   ○ 8%

   Incorrect. Try again.

3. Which of the following is the most significant drawback to using private investment accounts to fund educational expenses?

   ○ Lack of control over investments

   Incorrect. Try again.

   ● Lack of tax advantages

   Correct.

   ○ Limits on contributions

   Incorrect. Try again.

   ○ None of the above

   Incorrect. Try again.

4. Which of the following is true of a Coverdell ESA?

   A. Contributions are limited to $2,000 annually
   B. Investments grow tax-deferred

C. Qualified withdrawals from the account are tax-free

- ○ A. only

  Incorrect. Try again.
- ○ B. only

  Incorrect. Try again.
- ○ C. only

  Incorrect. Try again.
- ○ A. and B. only

  Incorrect. Try again.
- ● A.,B., and C.

  Correct.

5. John and Mary Jones set up an UGMA for their 8-year-old son, who has no other source of income. At what rate will all income earned in the account over $1,900 be taxed?

- ○ 0%; Income generated in a UGMA is tax-deferred

  Incorrect. Try again.
- ○ Income over $1,900 will be taxed at the child's marginal tax rate

  Incorrect. Try again.
- ● Income over $1,900 will be taxed at the parent's highest marginal rate

  Correct.
- ○ Income over $1,900 will be taxed at 35%

  Incorrect. Try again.

529 Plans: A Very Attractive Alternative

Beginning around 1990, states started developing a new type of plan designed to encourage savings for college expenses. Subsequently, in 1996, legislation was passed giving rise to what has become known as 529 Plans, referring to Internal Revenue Code Section 529, which allows these plans.

Simply stated, 529 Plans provide individuals a tax-advantaged option for saving for college. Initially, 529 Plans were not widely publicized; however, they have become an increasingly popular option in the last few years. Every state now has a 529 Plan. Against the backdrop of traditional funding alternatives, Section 529 Plans are particularly appealing, due to higher contribution limits for tax-deferred accumulation and greater donor control over the assets in the account compared to the other vehicles.

Overview	Before we address the specifics of 529 Plans, it is important to understand the two basic types of Plans created under IRC Section 529. **Click each type to learn more.**
Prepaid Tuition Plans	Prepaid Tuition Plans are conceptually similar to defined benefit retirement plans. As the name implies, Prepaid Tuition Plans enable individuals to make contributions to the Plan that will then cover expenses for higher education in the future.
Tuition Savings Plans	529 Savings Plans provide individuals a tax-advantaged option for saving for college. Savings Plans are conceptually similar to a defined contribution retirement plan. In a 529 Savings Plan, individuals make contributions to the plan and select from the investment options offered. The assets can be used in the future to pay for college education expenses. The value of the assets may be more or less than the cost of education, depending upon contributions, growth and cost of the institution selected.

Basic Rules Governing 529 Plans

To understand how these Plans work, it is best to start with the Internal Revenue Code itself. Prior to the adoption of Section 529 in the Code in 1996, similar plans had already been created. The code section was adopted to provide the official IRS rules by which such plans are created and governed. There is also a set of proposed regulations for Section 529 that have yet to be finalized. In the interim, Plans are allowed to operate under the proposed regulations until these proposed regulations are finalized. The seven basic rules under Section 529 are listed below.

Click each rule to learn more.

1. Sponsorship limited to states and eligible private institutions

A plan must be established and maintained by a state or state agency, or eligible educational institution (prepaid plans only). State programs can be either prepaid or savings plans; private educational institutions can only offer prepaid plans.

2. Contributions must be made in cash

This prevents individuals from avoiding the payment of capital gains taxes by contributing appreciated assets. However, note that assets can be rolled over from another 529 Plan, an UGMA/UTMA account, a Coverdell Education Savings Account, or certain U.S. Savings Bonds issued after 1989.

3. Investments cannot be individually directed

Contributors are not allowed to individually direct the investment of any contribution, but so far this requirement seems to have been interpreted rather loosely. While contributors have not been allowed to choose from among individual stocks and bonds or from among unlimited numbers of mutual funds, Plans are allowing contributors to allocate balances among a group of investment options established by the Plan.

4. Plans must provide separate accounting for each participant

The Program must establish separate accounting for each participant. This applies to both Prepaid Tuition and Savings Plans. However, in the Prepaid Tuition plans, the separate account is basically maintained to track dollars paid for contracts.

5. Assets cannot be used as collateral

A Program cannot allow an account to be used as security for a loan.

6. Plan Must Have Reasonable Limits On Contributions

There must be reasonable limits on contributions to the Program. This has been interpreted as allowing contributions in the amount of projected future education costs. Therefore, limits are set giving consideration to the cost of up to 5 years at the most expensive schools in the country, bringing current contribution limits in some plans above $300,000. If the accumulation limit is reached, no more contributions can be made.

7. Penalties and Restrictions For “Non-Qualified” Withdrawals

A non-qualified withdrawal is one that is not used to pay for tuition, fees, books, supplies, equipment, and room and board at an eligible educational institution. Non-qualified withdrawals are subject to a tax penalty on the earnings portion of the amounts withdrawn. Earnings are also subject to income taxation.

Prior to 2001, the requirement was that the penalty had to be for more than a “***de minimis***” amount. *De minimis* was interpreted to be at least 10%. The amendment to this requirement enacted in 2001 changed the penalty on earnings from a *de minimis* amount to a Federal 10% additional tax on the earnings portions of non-qualified withdrawals.

Payments made as a result of the death or disability of a beneficiary or as a result of the receipt of a scholarship are exempt from this additional tax.

8. Plans can be used across state lines

In most cases, 529 plans are no longer restricted by state lines. That means you could live in Florida, invest in a state plan in Wisconsin, and send your student to college in Nevada.

Some plans still have restrictions, though, so it's always a good idea to check the guidelines for each plan.

Review Exercise

Select the correct answer.

1. One advantage of a 529 Plan over a Coverdell Education IRA is:

   - ○ Tax-deferred investment earnings

     Incorrect. Try again.

   - ○ Funds can be used for primary and secondary education.

     Incorrect. Try again.

   - ○ Investments can be self-directed

     Incorrect. Try again.

   - ● No Adjusted Gross Income limits

     Correct. This allows people with high income to make tax deferred contributions that would be prohibited in a Coverdell IRA.

2. While it is not possible to individually manage the investments, when making contributions to a Prepaid Tuition Plan it is possible to select from among the investment options provided by the Plan.

   - ○ True

     Incorrect. It is only possible to select from among investment options with a Tuition Savings Plan. With a Prepaid Tuition Plan, the contract is for a guaranteed benefit and the investments are totally handled by the Plan.

   - ● False

     Correct.

3. Which of the following statements regarding 529 Plans is FALSE?

   - ○ Plans must be sponsored by a state, state agency, or eligible educational institution.

     Incorrect. Try again.

   - ● Plans will typically only accept cash contributions.

     Correct. This implies that some plans will accept assets other than cash, when in fact they can ONLY accept cash contributions.

     Note: Assets can be rolled over from another 529 Plan, an UGMA/UTMA account, a Coverdell Education Savings Account or certain U. S. Savings Bonds issued after 1989.

   - ○ Funds placed in a Plan cannot be used as security for a loan.

     Incorrect. Try again.

   - ○ There are penalties and restrictions for "non-qualified withdrawals"

     Incorrect. Try again.

   - ○ There must be reasonable limits on contributions.

     Incorrect. Try again.

4. Which of the following is probably NOT a qualified withdrawal from a 529 Plan and would therefore be subject to a 10% penalty?

   ○ Tuition

   Incorrect. Try again.

   ○ Books

   Incorrect. Try again.

   ○ Dormitory expense

   Incorrect. Try again.

   ○ Meal Plans

   Incorrect. Try again.

   ● Transportation

   Correct.

5. Non-qualified withdrawals are subject to a Federal 10% tax on the full amount of the withdrawal.

   ○ True

   Incorrect. The tax is only on the earnings portions of non-qualified withdrawals.

   ● False

   Correct. The tax is only on the earnings portions of non-qualified withdrawals.

6. The Martins are looking to start a tax-deferred college savings vehicle to supplement the 529 Savings Plan they have already established for their son. While they are not looking to contribute more than $1,500 per year, they would still like to make decisions on how the money is directed. Based on these facts, is the Coverdell ESA a viable option?

   ● Yes. The Coverdell ESA would accommodate all of the Martin's needs.

   Correct!

   ○ No. The CESA does not allow owners to self-direct the investments.

   Incorrect. The CESA does allow self-directed investments. Try again.

   ○ No. The fact that the Martins have a 529 Plan already established may affect their ability to make tax-deferred contributions.

   Incorrect. The CESA is compatible with other plans. Try again.

   ○ Yes. Even though they will only be able to contribute $1,000 per year, it would still be a viable option.

   Incorrect. The CESA allows contributions up to $2,000. Try again.

Prepaid Tuition Plans: A Contract for the Future

A Prepaid Tuition Plan is one in which a contract is purchased for a ***specific price***. This contract may provide a ***guarantee*** to pay tuition and fees at an accredited in-state public college or university, as stipulated by the Plan. If the student attends a private college or university, or attends an out-of-state public college or university, the plans **typically** pay the average of in-state public college tuition. The family will be responsible for the difference, if any.

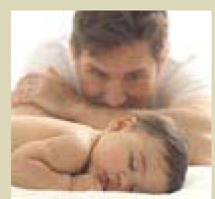
The price of the contract is based upon a number of factors, including:

- The current cost of in-state public college tuition and fees.
- The age of the prospective student.
- The number of years of education to be purchased.
- The time period over which the contract will be paid (for example: lump sum versus 10 year installments).
- Actuarial assumptions regarding how much tuition and fees will increase in the future and the future return on investments.

The contract defines the specific education expenses that will be covered for the specified student. When the student begins school, the contract will pay the expenses at the level required at that time.

Click the icon to view a State Prepaid Plan example.

The Smiths



Jack and Lauren Smith have a four-month-old baby, Michael. In-state tuition and fees are currently $5,000 per year. They want to be assured that Michael will be financially able to attend college, so they have chosen to participate in the State Prepaid Plan. The following are the stipulations of the Plan:

Child's current age:	4 months
Lump Sum Contribution Price:	$20,000
Benefit:	4 years tuition and fees at one of the accredited state universities

In 18 years, when Michael is ready to attend college, tuition and fees are projected to grow 7 to 8% per year, giving rise to an expected future cost as high as $80,000. Regardless of the actual future cost, the Prepaid Plan will pay the tuition and fees for him for the four years stipulated in the Plan.

It is important to understand that a Prepaid Plan is designed to pay in-state public tuition and fees that are in effect at the time the child goes to college, not a specified dollar amount. In the above example, if the tuition and fees rise to $20,000 per year by the time the child goes to college, then $20,000 will be paid. Likewise, if tuition and fees only rise to $10,000 per year, then $10,000 will be paid.

Typical Provisions of Prepaid Tuition Plans

Although every state Prepaid Plan is somewhat unique, there are some common provisions. To gain a deeper understanding of this type of 529 Plan, let's examine some of the typical provisions more closely.

Click each provision to learn more.

Institutions Covered

Most plans provide contracts for at least four years of university study, two years of community college, and a combination program of two years community college and two years of university. Other types of contracts may also be available, including those that provide for a specific number of credits or hours.

Expenses Covered

Plans will cover tuition and fees for the type of contract purchased. Also generally covered are books, supplies and equipment. Some Plans will even cover certain levels of room and board.

Tuition Payment

Plans will pay the full expenses covered under the contract purchased for in-state public schools. For attendance at private or out-of-state public schools, generally the weighted average tuition for all in-state public schools is paid. The weighted average calculation will be based on the attendance at each in-state public college.

For example, suppose there are three public schools in a state, all with the same attendance, but with differing annual tuition charges of $3,000, $4,000, and $5,000. If a student decides to go to the most expensive public school, then the plan would pay the full $5,000. But if the student chooses to attend a private college or out-of-state school, the plan will only pay $4,000, the weighted average tuition amount of the three public schools.

Contract Purchase Options

At the time of contract purchase, the purchaser has options regarding how payments will be made. The normal choices include:

- One lump sum contribution
- Annual or monthly payments for a set period of years or until the student is expected to start school
- Combination of lump sum and annual/monthly payments

Plan Fees/Expenses

There are fees that apply to contracts. An application fee is almost always charged. Other fees that may be levied under certain circumstances include late fees for the tardy receipt of required payments and fees if you request a change in certain contract provisions. There will also normally be a fee charged if you request the contract be canceled.

Refunds

Under certain circumstances, refunds from the plan may be requested. These circumstances include contract cancellation, death, disability, or the receipt of a scholarship by the student. The amount of the refund will generally be the amount the purchaser paid for the contract plus investment earnings. For contract cancellation, Federal income taxes and a 10% Federal tax penalty will apply on the earnings.

Contract Changes

Transfers or substitutions of beneficiaries within a family may be available for an adjustment in

contract price.
State Guarantees
Program solvency may be guaranteed by the sponsoring state.
Investments
The investment managers and investment allocation are determined by the Program. The investment goal of the Plan is to ensure that financial projections and liabilities will be met.

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529 Savings Plans: For Those Who Want Greater Investment Flexibility

The greatest growth is taking place with Savings Plans. The 529 Savings Plan has a very simple concept behind it. An individual makes contributions to a 529 Plan account that grows tax deferred and must then choose from among the predefined investment options offered by that plan. Generally, the available investment options range from conservative to aggressive, and offer pre-determined investment mix options that will vary depending on the age of the prospective student. This last option, the pre-determined investment mix, will tend to be very aggressive for young prospective students and become increasingly conservative as they near college age. Regardless of the investment option chosen, when the beneficiary starts college, assets in the account can be withdrawn federally tax free to pay for "qualified" education expenses (tuition, books, fees, room and board). Depending on the state, state taxes may or may not be due. *

To contrast Savings Plans to Prepaid Plans, let's again use the example of the Smith's.

Click the icon to view a 529 Savings Plan example.

The Smiths

Jack and Lauren Smith decide to begin saving for their newborn son Michael's college education. They choose to open a 529 Savings Plan, making monthly payments of $250 ($3,000 per year). From the five investment options provided, they choose the Aggressive Option that has a mix of 90% Large Cap Stocks and 10% Intermediate Term Bonds. Given historical returns, they can expect to earn about 8% on their contributions, bringing the total in 18 years to $120,000. That is considerably more than their 18-year contribution of $54,000.

Note: They have assumed market risk with this Plan. While they might end up with $150,000 or even more for their child's education, they could also suffer poor investment performance. For example, if they averaged an annual return of 4%, the ending balance would be $79,000. Other factors may also affect the investment return of a 529 Savings Plan, such as sales charges, fees, and expenses that vary depending upon specific plans.

Thus, while the ultimate objective of the Prepaid Tuition Plan and the Savings Plan is the same – to allow for the accumulation of assets that will be used in the future to pay for college expenses – the approach in each plan is quite different. As you can see from the examples given, a Prepaid Plan is a contract between the state and the contributor to pay for college expenses as stipulated by the plan. Alternatively, a Savings Plan enables the contributor greater flexibility in the amount of contributions and choice among investment options. But with Savings Plans, there is no guarantee that the assets in the Plan will be enough to cover Qualified Expenses – the assets could be more or less than what is needed, dependent upon contributions, investment opportunities, and cost of the educational institution selected.

**Note that the Economic Growth and Tax Relief Reconciliation Act of 2001 was scheduled to "sunset" effective 12/31/2010, but the Pension Protection Act of 2006 made these plans permanent.*

Review Exercise

Review the preceding material by answering the following questions.

1. All of the following are factors that influence the price of a Prepaid Tuition contract EXCEPT:
   - ○ The current cost of in-state public college tuition and fees

     Incorrect. Try again.
   - ● The current cost of in-state private college tuition and fees

     Correct. The cost of private colleges is not taken into consideration.
   - ○ The time over which the contract will be paid

     Incorrect. Try again.
   - ○ Actuarial assumptions regarding how much tuition and fees will increase in the future and the future return on investments

     Incorrect. Try again.

2. An application fee is almost always charged on Prepaid Tuition Plans and Savings Plans.
   - ● True

     Correct.
   - ○ False

     Incorrect.

3. Although state-sponsored, states are prohibited from guaranteeing program solvency of Prepaid Tuition Plans.
   - ○ True

     Incorrect. The solvency of Prepaid Tuition Plans may be guaranteed by the state.
   - ● False

     Correct.

4. Currently, contributions into 529 Savings Plans can be made until the account balance reaches what level?
   - ○ $435,000

     Incorrect. Try again.
   - ○ There are no limits other than the consideration of donor limits of gift tax statutes.

     Incorrect. Try again.
   - ○ The limits set by federal statutory guidelines.

     Incorrect. Try again.
   - ● The limits set by the state boards in each particular state.

     Correct.
   - ○ $515,000

     Incorrect. Try again.

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Tax Advantages of 529 Plans

Of all the benefits offered by 529 Plans, the most significant relate to the tax advantages that these Plans offer. The following is an overview of the major tax advantages offered by 529 Plans.

Click each advantage to learn more.

Investment Earnings are Tax-Deferred

Unlike traditional taxable investment accounts, investment earnings of a 529 Plan are tax-deferred, enabling individuals to capitalize on the significant benefits of tax-deferred growth.

Qualified Distributions are Non-Taxable

Qualified distributions from a 529 Plan are free from Federal income taxes. Qualified distributions include tuition, fees, and books at an accredited college or university and expenses for room and board.

Potential State Income Tax Deduction

In some states, contributions by state residents to that state's 529 Plan(s) are state tax deductible or other tax benefits may be available. In some states, the state tax benefits are substantial.

Note: This benefit is not applicable in all states. You should review the provisions of your Plan(s) and you must recommend that clients see a tax advisor to see if this additional tax benefit is applicable.

Estate and Gift Tax Benefits

Less well-known than the income tax benefits of 529 Plans are the Estate and Gift tax benefits. Contributions to 529 Plans are considered a completed gift, meaning the assets are no longer considered part of the contributor's estate. This provision enables higher net worth individuals to use 529 Plans as part of an overall strategy to reduce the size of their estate and, thus, their potential estate tax liability, while still maintaining a high degree of control over the assets (choosing investment options, designating beneficiary, and making withdrawals).

Accelerated Gift Tax Treatment

Individuals making contributions to a 529 Plan can elect to receive accelerated gift tax treatment, enabling them to make the equivalent of 5 years of gift tax-free transfers in one year. In 2009 and 2010, rather than being limited to $13,000 per beneficiary per year ($26,000 if married and making split gifts) without triggering gift taxes, individuals can make up to 5 years of contributions in a lump sum (up to $65,000 per beneficiary for single contributors and $130,000 for married contributors) without triggering gift taxes.

One caveat to making this election is if total contributions to each beneficiary exceeds five times the annual gift tax exclusion ($65,000 for single contributors or $130,000 for married contributors), the excess amount is treated as a taxable gift in the year of contribution.

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Capitalizing on Opportunities: Selecting the Appropriate Education Savings Vehicle

As you can see, the range of education savings vehicles available to affluent clients is numerous, each with its own merits and weaknesses. The key issue is selecting the right vehicle, given a particular client's unique circumstances. The importance of helping clients be truly thoughtful in this analysis is captured in this true story.

James Kelly's Story

James Kelly contacted Frank Johnson, his advisor, 15 years ago and inquired about setting up an account for his son, who had just turned three. Frank spent a few minutes sharing war stories about the joys of raising a young son and then proceeded to talk business.

James said he wanted to start setting aside some money for his son's education and wanted to know the best way to do it. Frank quickly replied, "Let's just set up an UGMA, which will put the money in your son's name but enable you to maintain control over how the money is managed." And so, it was. The account was set up and James funded the UGMA with 3000 shares in a start-up venture run by two of James' friends.

Fast forward to a few months ago when James called Frank and was obviously troubled, and rightfully so. The account he had set up years ago for his son had performed quite well. In fact, the account, valued at just over $15,000 at the time it was set up was now worth over $3.2 million, and his son would be turning 18 in just a few weeks, giving him full and unfettered access to this wealth.

The following are effective questions you can use to engage your clients in a meaningful dialogue designed to identify the most appropriate education savings vehicle for them.

Click the icon to view some effective questions.

Doubt Raising Questions

- How has your advisor worked with you to assess pros and cons of the education savings alternatives available to you?
- How has your advisor helped you identify the most tax-efficient approach to saving for your child's education?
- How have they worked with you to select the education savings vehicle that affords you the optimal combination of tax-efficiency and control?

Common Client Questions About 529 Accounts

At this point, you should have a fairly comprehensive understanding of 529 Plans. However, as with any relatively new planning strategy, there are myriad questions that may arise in the day-to-day conversations with your clients. The following is a Reference Guide of some of the common questions that clients may pose. It is important that you cross-reference this information with any laws specific to your state and the specific guidelines of the Plan(s) you are offering.

Click the icon next to each question to see the answer.

Who Can Establish an Account?

Answer: Any U.S. citizen or legal U.S. resident can set up a 529 Plan account. Minors can establish an account; however, a parent or guardian must sign the account application.

Are 529 Plans Guaranteed?

Answer: Certain Prepaid Plans are guaranteed by the sponsoring state. You must refer to the individual state's plan to make that determination. Savings Plans, on the other hand, are never guaranteed.

What are the Contribution Limits to a 529 Plan?

Answer: Although contribution limits vary by Plan and by state, the maximum contribution to any Plan may currently exceed $300,000 per beneficiary, while the median limit is just over $230,000. At such time as the value of the account reaches the plan's maximum limit, either through contributions and/or growth, no more contributions can be made to that account. But again, limits will vary by state, and should always be verified.

Who Can I Select as a Beneficiary?

Answer: The contributor can select any U.S. citizen or legal resident as the beneficiary. The beneficiary does not have to be a family member. You can even select yourself as beneficiary.

Can I Change the Beneficiary?

Answer: Generally, you can change the beneficiary. However, to avoid Federal income tax and the 10% penalty, the new beneficiary must be a family member of the original beneficiary. Also, for Prepaid Plans, this may require an adjustment to the premium.*

Eligible family members of the original family member include:

- A son or daughter or a descendent of either

- A stepson or stepdaughter
- A brother, sister, stepbrother or stepsister
- A father or mother or an ancestor of either
- A stepfather or stepmother
- A brother or sister of the father or mother
- A son or daughter of a brother or sister
- A son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law
- The spouse of the beneficiary or the spouse of any individual described above
- A first cousin of the beneficiary

* Note that the tax benefits provided to 529 Plans under the Economic Growth and Tax Relief Reconciliation Act of 2001 were scheduled to "sunset" effective 12/31/2010, but the Pension Protection Act of 2006 provided that the tax-free treatment for qualified withdrawals from 529 Plans has now been made permanent.

What Happens if the Beneficiary Receives a Scholarship?

Answer: The account owner can withdraw assets commensurate with the value of the scholarship. The withdrawal is subject to Federal income taxes but will not be charged the 10% Federal tax penalty subject to non-qualified withdrawals.

What Happens if the Beneficiary Becomes Disabled or Dies?

Answer: The account owner can withdraw the funds. The withdrawal is subject to Federal income tax but will not be charged the 10% Federal tax penalty levied on non-qualified withdrawals.

What Happens if My Beneficiary Decides Not to Go to College?

Answer: The account owner can change beneficiaries subject to the rules stated above or simply withdraw the funds and pay the Federal tax and 10% penalty.

What Happens with a Prepaid Plan if the Beneficiary goes to a Private or Out-of-State School?

Answer: In that case, the funds can be applied to the private or out-of-state school, but the amount would have nothing to do with the actual costs of the private or out-of-state school. Instead, the funds available would be equal to the average cost of attending an in-state public school.

What Constitutes "Qualified Expenses"?

Answer: Qualified expenses include tuition, books, fees, room and board, supplies and equipment for enrollment (must be enrolled on at least a half-term basis) and certain special need expenses at an Eligible Educational Institution as defined by Title IV of the Higher Education Act of 1965. Most colleges, universities, community colleges, vocational schools, and even some foreign institutions qualify.

Can I Use 529 Plan Assets to Pay For Elementary and/or High School Tuition and Fees?

Answer: Not without paying Federal income tax and a 10% penalty.

Who Owns the Account if I Die?

Answer: A successor owner is typically selected upon opening of the account. If no succession is defined, in most states the estate of the deceased owner becomes the owner of the account.

What are the Estate Tax Consequences if the Account Owner Dies?

Answer: The account is not included as part of the owner's estate. If, however, the owner dies within five (5) years of taking advantage of the special annual gift tax exclusion made to accelerate gifts to the beneficiary, the portion of the gift(s) allocated to the years after the account owner's death will be included in the account owner's estate. When calculating recapture, keep in mind that the annual gift tax exclusion amount was $11,000 from 2002 – 2005, $12,000 from 2006-2008, and $13,000 in 2009 and 2010.

What are the Estate Tax Consequences if the Beneficiary Dies?

Answer: The assets in the account are included in the beneficiary's estate.

Can I Roll Over Assets from One 529 Plan to Another?

Answer: Yes, rollovers can be made from one Savings Plan to another once every 12 months or whenever a beneficiary change is made.

Step #3: Educate Clients on Potential Tax Credits

The final step is to educate clients on potential tax credits that may be available to them. There are two tax credits and three deductions that individuals can potentially use to ease the burden of rising education expenses:

Overview	**Click each tax credit on the left for more information.**
The American Opportunity Tax Credit	The American Recovery and Reinvestment Act of February 2009 created The American Opportunity Tax Credit (AOTC) as a replacement of the Hope Credit for 2009 and 2010. This credit is 100% of qualified tuition, fees, and course materials paid by the taxpayer for the taxpayer's or dependent's qualified education expenses, up to $2,000 plus 25% of the next $2,000 of expenses. Thus, the maximum AOTC is $2,500. This credit is applied on a per-student basis, enabling families to claim the credit for each family member attending a qualified post-secondary school at least half-time in any one year. **Restrictions**: This credit is only applicable to the child's first four years of post-secondary education. Furthermore, the AOTC, the Lifetime Learning Credit, or Tuition and Fees Deduction cannot be claimed for the same student in the same year. For the tax year 2009 and 2010, this credit phases out for single filers with modified AGI of $80,000-$90,000 and joint filers with modified AGI of $160,000-$180,000. Other limitations may apply and the client should consult his or her tax advisor regarding use of this credit.
Lifetime Learning Credit	Similar in structure to the AOTC, the Lifetime Learning Credit enables families to claim a tax credit for qualifying education expenses or for expenses associated with part-time classes at a qualifying educational institution taken to improve or upgrade job skills. Specifically, families can claim a credit for 20% of the first $10,000 of qualifying tuition and fees. (Note: This credit maximum is $2,000 per family, not per taxpayer/dependent.) **Restrictions:** The AOTC, the Lifetime Learning Credit, or Tuition and Fees Deduction cannot be claimed for the same student in the same year. This credit phases out for taxpayers earning beyond certain levels of income (indexed for inflation). For the tax year 2009 and 2010, the credit phases out for single filers with modified AGI of $50,000-$60,000 and for joint filers with modified AGI of $100,000-$120,000. Other limitations may apply and the client should consult his or her tax advisor regarding use of this credit.
Student Loan Interest Deduction	Interest paid on private or government-backed loans for qualifying post-secondary education and training expenses (including tuition, fees, books, equipment, room and board) is an "above the line" deduction in calculating adjusted gross income (whether or not the taxpayer itemizes deductions). The

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	maximum allowable deduction in any one year is $2,500. For the tax year 2009 and 2010, this deduction phases out for single filers with modified AGI of $60,000-$75,000 and for joint filers with modified AGI of $120,000-$150,000 (phase out limits are indexed for inflation). Other limitations may apply. The client should consult his or her tax advisor.
Tuition and Fees Deduction	Tuition and certain related expenses for a qualified student paid to an eligible post-secondary educational institution can also be an "above the line" deduction in calculating adjusted gross income. The maximum deduction is $4,000 per year if the taxpayer's MAGI is less than $65,000 (S/HOH/QW) or $130,000 (MFJ). Between an MAGI of $65,000 - $80,000 (S/HOH/QW) or $130,000 - $160,000 (MFJ), the deduction is $2,000. The taxpayer is not eligible for the deduction if MAGI is above $80,000 or $160,000. **Restrictions**: If an educational tax credit is utilized by a taxpayer, this deduction is not available for the same student in the same tax year or vice versa. The taxpayer must reduce the qualified education expenses by the amount of any tax-free educational assistance and refunds received. Other limitations may apply and the client should consult his or her tax advisor regarding use of this deduction.
Business Deduction for Work-Related Education	An employee taxpayer may be able to deduct work-related education expenses as a miscellaneous itemized deduction to the extent that certain miscellaneous deductions exceed 2% of the taxpayer's AGI. A self-employed individual would deduct qualifying education expenses from self-employment income. This deduction would not typically prevent the taxpayer from utilizing the above listed credits and deductions. **Restrictions**: To deduct the work-related education expenses, two tests must be met: • The taxpayer's employer must require the education to maintain the taxpayer's salary, position, or job status. The required education must serve a bona fide business purpose for the taxpayer's employer. • The education maintains or improves skills needed in the taxpayer's work. Note that the education expenses will not be deductible if the education is needed to meet the minimum educational requirements of the taxpayer's trade or business or, if the education qualifies the taxpayer for a new trade or business. Other limitations may apply and the client should consult his or her tax advisor regarding use of this deduction.

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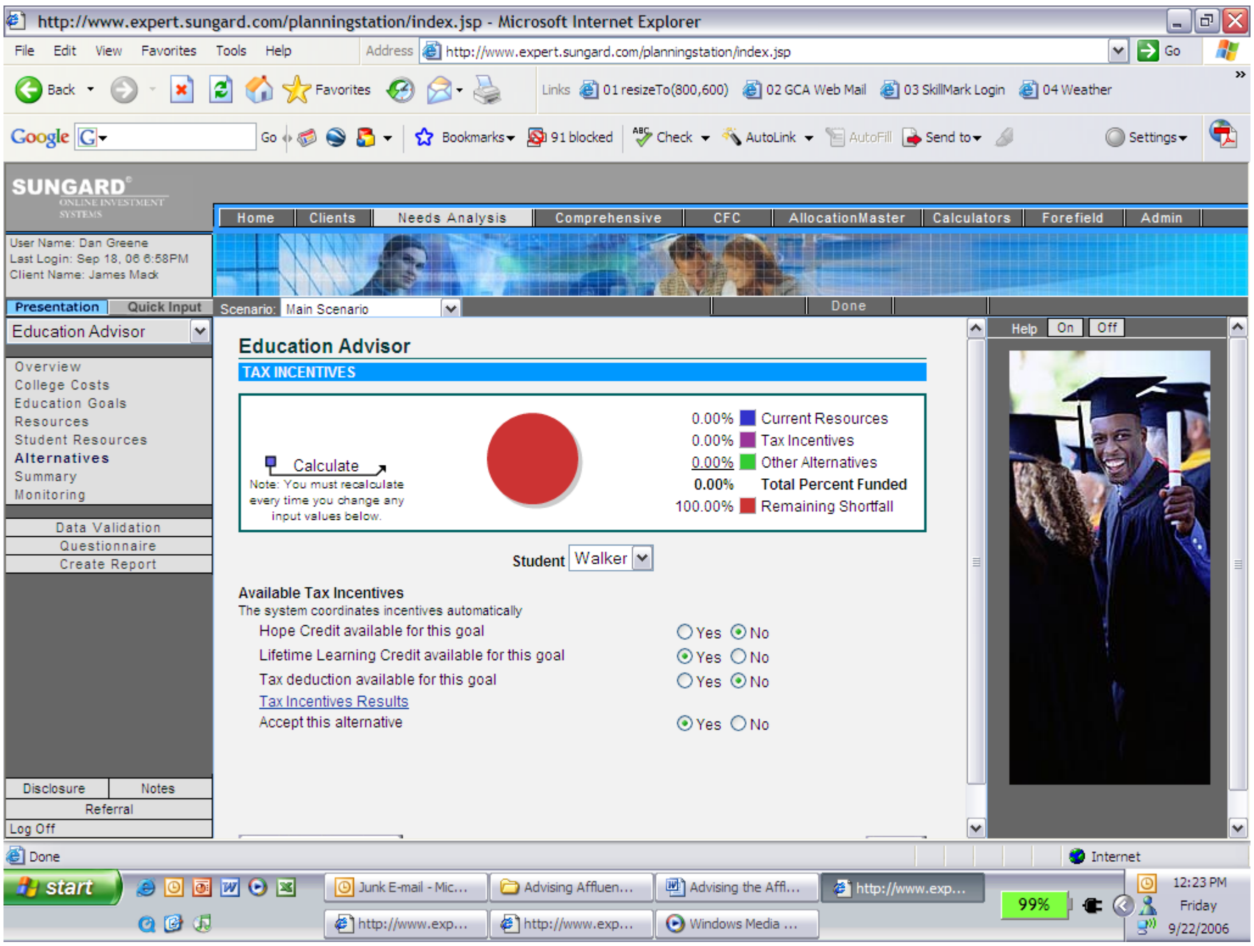
PlanningStation:
Relevance of Understanding Potential Tax Credits

PlanningStation enables advisors to integrate the potential tax credits addressed in the preceding pages into a client's Education Planning report. The graphic below illustrates how this information is addressed in PlanningStation.



Understanding the basic requirements for qualifying for these Education Tax Credits will enable you to develop a more comprehensive Education Plan and potentially distinguish you from others advisors unfamiliar with this part of the tax code.

Review Exercise

Review the preceding material by answering the following questions.

1. Through accelerated gift tax treatment, how much can a married couple contribute in 2010 to a 529 plan in a lump sum without triggering a gift tax?

   ○ $26,000

   Incorrect. Try again.

   ○ $39,000

   Incorrect. Try again.

   ○ $65,000

   Incorrect. Try again.

   ○ $78,000

   Incorrect. Try again.

   ● $130,000

   Correct. Normally, they can contribute $26,000 per year. But the donor may elect to gift up to 5 times the annual gift tax exclusion in a single year (5 x $26,000).

2. Oddly enough, while 529 Plans are tax advantaged for Federal income tax purposes, there is no tax-advantage for state income tax purposes.

   ○ True

   Incorrect. In some states, contributions may be deductible.

   ● False

   Correct. In some states, contributions may be deductible.

3. Every state has a Savings Plan.

   ● True

   Correct.

   ○ False

   Incorrect.

4. Provided all distributions are qualified, all earnings in a 529 Plan will totally escape Federal income taxation.

   ● True

   Correct.

   ○ False

   Incorrect.

PlanningStation:
Presenting the Education Foundations Report to a Client

Education Planning is clearly a significant planning topic relevant to a vast majority of affluent clients. Understanding the opportunity to provide Education Planning advice, PlanningStation can be a highly effective tool you can use to facilitate more effective conversations with your clients.

To review a sample Education Foundations Report, **click** **here**.

Although no two meetings are ever alike, there are key parts of the Education Foundations Report that are likely to be important in most client meetings. An effective approach to presenting this plan would include focusing on the following two components of the Education Foundations Report.

Step One: *Confirm the Client Data (Report pages 2-4)*

First, confirm the data used to generate the report by reviewing the summary data contained on pages 2-4 of the Report. This step will vest the client in the process, providing a legitimate foundation for the action steps outlined in the pages that follow.

FYI

Setting financial goals is the first step to reaching them.

Knowing where you are in relation to your education goals can help you know how to achieve them.

To reach your education goals, you must start an accumulation plan and stick to it.

When accumulating for your education goals, you may choose from many funding alternatives, such as:

- Savings accounts
- Mutual funds
- Stocks
- Bonds
- Series EE bonds issued after 1989 or Series I bonds

Summary

Funding Your Educational Expenses*

Your needs may be fully funded with one of the following three funding patterns:

Monthly accumulation for the next 216 months	$2,099
Yearly accumulation for the next 18 years	$25,183
Lump sum today	$453,293

Your Current Situation

Percent of goal funded by current programs	24.86%

Your Solution

Total additional monthly funding of	$2,000
Could increase education funding to	96.47%

* The suggested amount is in addition to any current program for education and does not include the additional monthly funding listed above.

Step Two: *Present the Action Plan (Report page 8)*

Once the inputs to the Report have been confirmed with the client, you can then focus the discussion on the action steps outlined in the Report on page 8.

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Data and Assumptions

Personal Information

	Client	Spouse
First name	James	Julie
Middle name	T.	M.
Last name	Mack	Mack
Birth date	11/13/1965	10/11/1969
Gender	Male	Female
Marital status		Married

Education Goals

Student Name	Years Until Need	Years Of Need	Annual Cost	School Name	Percent to Fund
Jack	11	4	$21,880	Penn State Altoona	100%
Walker	15	4	$40,213	Princeton U.	100%

Current Resources

Current education assets	$150,000
Current assets/funding annual rate of return (before tax)	0.00%

General Assumptions

Education inflation rate	6.00%
Average income tax rate (state and federal)	28.00%
Fund **To** the beginning of your first education goal or **Through** the end of your last education goal	Through
Tax treatment of education assets	Tax Free

Proposed Additional Funding

Additional monthly funding	$2,000
Number of months for additional funding	216
Rate additional funding increases annually	3.00%
Additional funding annual rate of return (before tax)	0.00%

As you can see, this approach is both simple and compelling, enabling you to use a highly customized and formal analysis of a client's situation, simplifying the process of providing education planning advice.

Conclusion

Given the rising costs of education, now more than ever it is vital that you as an advisor are well equipped with the knowledge and ability to help clients develop sound education planning strategies. This material has provided you with a comprehensive overview of the key issues you must help clients address to achieve their education savings goals by focusing on the three key questions in the education planning process.

This concludes the material for this subject. At this time you may return to any sections in which you feel the need for further study.

Planning Questions and Key Points

How much should I save?

- Estimated costs
- Education Inflation Rate: 6%

What vehicle should I use?

- Traditional Investment Account
- UTMA/UGMA
- Coverdell ESA
- 529 Plans

What education tax credits or deductions are available?

- The American Opportunity Tax Credit
- Lifetime Learning Credit
- Student Loan Interest Deduction
- Tuition and Fees Deduction
- Business Deduction for Work-Related Education