

EDUCATION COSTS

Retirement @ 65

Providing educational funds can be one of life's greatest financial burdens. Fortunately, it is an expense that can be planned. The following illustration uses a rate of return of 6.00% for computing both a lump-sum and a monthly deposit funding method.

Student's Name	Age	Number of years	Starting year	Annual costs	Parent's Total Costs			
					Today's dollars	Inflated at 3.90%	Funding amount required	
							Lump Sum	Per month
Andy	15	4	2005	\$10,000	\$40,000	\$45,773	\$37,304	\$615
Bonnie	19	4	2002	10,000	40,000	31,185	29,410	893
Total				20,000	80,000	76,958		

Lump Sum:

This is the amount of money that would need to be set aside immediately to cover all costs assuming that the funds are spent at the beginning of each year. It is assumed that interest is added each year on the unused balance.

Monthly deposits:

Instead of pre-funding the education costs with a lump sum deposit, you could elect to accumulate funds by making monthly additions to a savings or investment account. In this case a required monthly deposit is computed that would provide enough funds to cover costs through the last year of education expenses.

Method #1 - Separate accounts for each child:

The benefit of separate account funding method is that the funds may be segregated and identified for each child. The disadvantage is that this method generally will require a much larger monthly deposit in the early years and smaller deposits in the later years. For example, if there are three children starting school at different years, the deposits might look like this:

Period 1

<i>Child 1 = \$400 per month</i>		<i>Period 2</i>
<i>Child 2 = \$350 per month</i>		<i>Period 3</i>
<i>Child 3 = \$300 per month</i>		
<i>Total deposits per month</i>	\$1,050	\$300

Method #2 - A single level payment amount used for all children:

If you used a single monthly amount, then the payments would be level throughout the education years. This method is generally easier for most families to afford.

<i>Funding for all children using level payments = \$625 per month</i>
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EDUCATION FUNDING

Retirement @ 65

The following schedules illustrate the education funds needed, using an after tax rate of return or a 529 education funding account. The options include separate accounts for each child, pre-funding with level monthly deposits through the last year, or a lump sum deposit.

Year	Annual Costs		Monthly deposit	Pre-Funded projection	
	Costs inflated at 3.90%	Parents share at 100%	Amount required using separate accounts	Lump Sum account 6.00%	Monthly* \$1,101 6.00%
2003	\$10,000	\$10,000	\$1,508	\$66,713	\$2,967
2004	10,390	10,390	1,508	60,116	5,699
2005	21,590	21,590	1,508	52,710	(3,278)
2006	11,216	11,216	615	32,986	(1,797)
2007	11,654	11,654	615	23,076	(691)
2008	12,108	12,108	615	12,108	

Totals \$76,958 \$76,958

Funding education costs with a lump sum investment now:

Lump sum needed today to fund future costs	\$66,713
Funds now available for college expenses.	6,500
Additional lump sum needed now	<u>\$60,213</u>

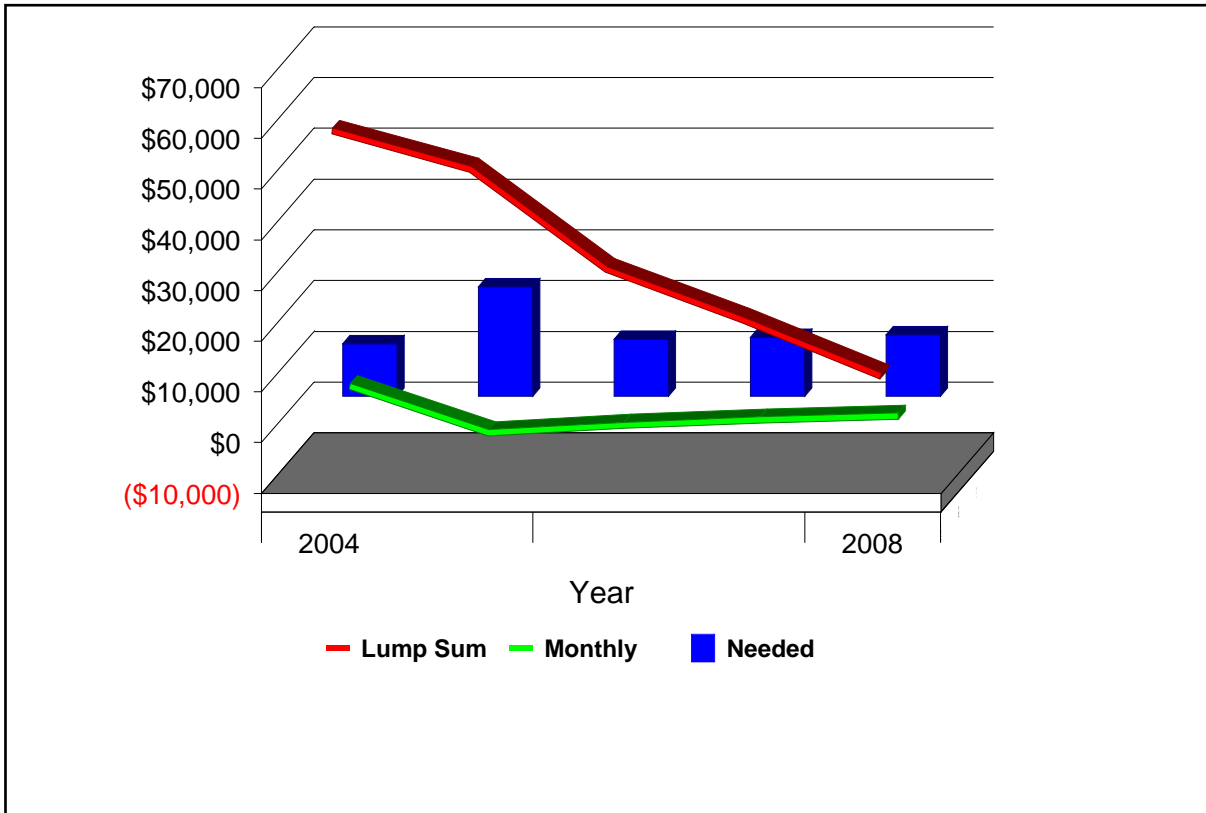
Monthly funding with level payments through the last year of college:

Total level monthly payments to fund costs	\$1,101
Payments needed considering \$6,500 available now	\$993
Additional needed with \$6,500 and \$145 current deposits	<u>\$848</u>

* A negative amount in this column indicates some loans will be required in the years indicated.

EDUCATION FUNDING

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The "Needed" bars indicate the annual expenditures for the years when each child is in school. The "monthly" line indicates the cumulative account value of monthly deposits to the education fund. The "Lump Sum" line represents the initial deposit of a single lump sum to an education fund and the projected growth of the account.

Funding education costs with a lump sum investment now:

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Normal retirement at age 65

SAVING FOR COLLEGE

Recent changes in income tax regulations have provided a variety of opportunities that should make saving for your child's education expenses more palatable. In some cases current education expenses can result in current tax savings, and putting aside money for future costs can be much more tax-friendly than in the past. (Note: without specific action from Congress, the improvements described below are scheduled to terminate in the year 2011.)

529 Plans:

Section 529 of the Revenue code has enabled states to establish special college savings funds where parents or grandparents can make deposits to an account to accumulate money for tuition and in some cases other expenses. The terms and benefits of each state vary, but generally include the following features:

- s Tax savings - starting in 2002 the earnings on the accounts will not only be accumulated without federal income tax, but withdrawals will also be tax free. Some states will also allow tax free withdrawals, and many states will even allow you to take a tax deduction for some portion of the money deposited.
- s Control - unlike other accounts sometimes used to accumulate money for the child, you, the donor, stay in control of the assets. You decide when withdrawals are taken and for what purpose. And in most cases you can even reclaim the funds, particularly if the child elects not to attend college. (There may be a penalty for "non-qualified" withdrawals.)
- s Simple - once you select which state plan to use, a simple enrollment form is completed, and deposits may even be made by automatic checking account withdrawals. The account is managed by the state or an investment manager hired by the state.
- s Everyone eligible - generally there are no special eligibility requirements, and the amounts you can contribute in many states are substantial (in some cases as much as \$200,000.)

Other education plans

The following items are effective with the 2001 tax act:

- s Deduction of higher education expenses - with certain limitations, a deduction may be claimed in 2002 and 2003 for up to \$3,000 tuition expenses, and up to \$4,000 in 2004-2005.
- s Education IRAs - the allowable contribution is increased from \$500 to \$2,000, definition of eligible expenses is expanded, the income level for phaseout of allowable contributions is increased, age limitations are eliminated, corporations may contribute to plans, and the plan is integrated with the HOPE and Lifetime Learning Credit programs.
- s Employer provided assistance - the \$5,250 contribution level now extends the exclusion to graduate courses and makes the exclusion for undergraduate and graduate courses permanent.
- s Student Loan Interest Deduction - the availability for this benefit has been broadened and the earnings limits raised.

For more information about these plans or to compare your state 529 plan with other states, go on the internet to . . . www.savingforcollege.com