

August 2012



**Patty Contreras, Broker**

[www.TheSterling-Ins.com](http://www.TheSterling-Ins.com)

Dear Friends,

Summer is approaching its end and back to school time is upon us. As we start getting prepared to send our children off to their new classes, it is important to be aware that August is also National Immunization Awareness Month. As part of our goal to keep you healthy, please visit the [National Partnership for Immunization](#). Our children are our most important asset!

I'd also like to make you aware of the dental promotion offered by Cigna for the month of September. For plans effective 9/1 or 9/15, Cigna is waiving the standard 6-month waiting period for basic restorative services and the 12-month waiting period that is in place for major restorative services. This is for new customers purchasing combined medical and dental plans or existing medical customers seeking to add dental to their current plans with an effective date 9/1 or 9/15. **This is a one-time promotion available only to customers who do not currently have dental coverage.** Call now to take advantage of this offer! (909) 946-0101.

With our children in mind, when saving for college tuition, it's important to understand the most beneficial ways to invest. Start saving early, and with the power of compounding, it isn't an impossible task and can be done with minimal money per month. These college funds are asset-based, and as we know, our children, as well as their education, are the most valuable assets.

Please read some important and very informative articles this month on the challenges and benefits of saving for college. And, as always, please feel free to call or email me with any questions or concerns. Have a wonderful beginning of the school year!

Warmest Regards,

*Patty Contreras*

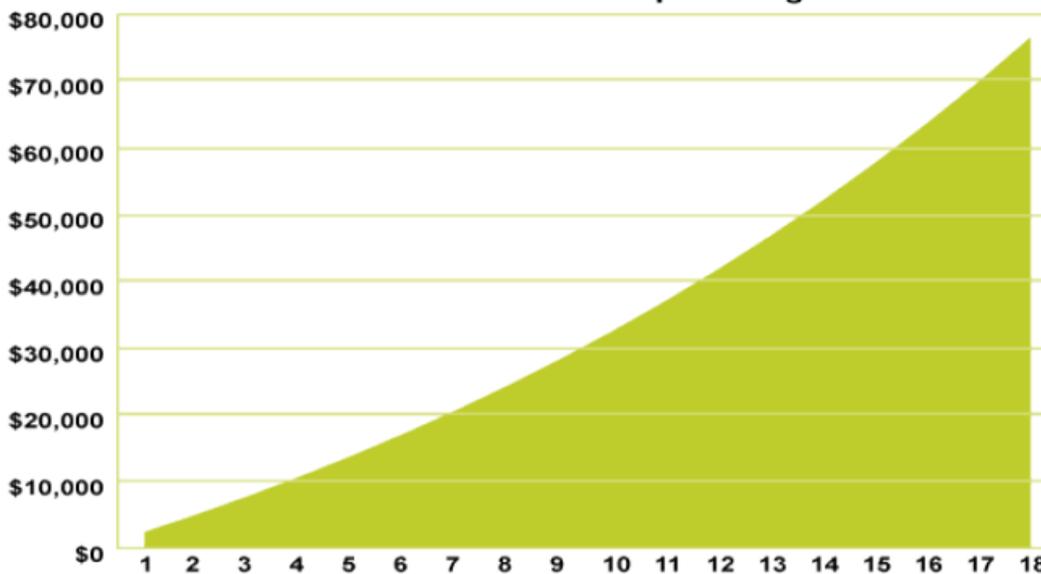
## College Costs Are Rising—Are You Keeping Pace?

College costs are rising. According to [The College Board](#)<sup>®</sup>, the average increase in tuition and fees at public four-year colleges in 2011 was 8.3 percent for in-state students and 4.5 percent for out-of-state students.

But don't despair. The cost of college remains within reach of many American families, especially those that start saving early. The College Board reports that half of all full-time public and private nonprofit four-year college students attend institutions charging tuition and fees of \$9,936 or less.

Don't be put off by the amount you may have to save. Small amounts of money, if invested early and prudently, can become sizable investments through the power of compounding. For example, if you save \$200 a month at a 6 percent annual rate of return for your newborn child, you will have more than \$76,000 for college when she turns 18.

**The Power of Compounding**



### Estimate How Much You'll Need to Save

Use our [College Savings Calculator](#) to see how early and regular saving can make your money grow. When estimating future college costs, remember to factor tuition, room, board and books into your calculation. If you know where you want your child to go to college, but don't know the current costs, you can use the National Center for Education Statistics' [school locator](#) to research the costs. If you are unsure where you want your child to go to college, you can get national public and private school averages from [The College Board](#).

### Don't Forget Financial Aid

As part of saving for college, you need to know whether your child will be eligible for financial aid, which reduces what you may need to save for college.

### Smart Tip

Be aware that saving for college might impact financial aid. Any investments or savings can affect federal financial aid eligibility. But the impact on financial aid varies depending on whether the savings belong to the parent or the child. Savings in a parent's name can reduce federal financial aid eligibility by at most 5.64 percent, but assets saved in a child's name can reduce aid eligibility by 20 percent. State 529 accounts owned by a child, or set up as custodial 529 accounts, are treated at the lower 5.64 percent rate. States and private colleges may have their own rules for financial aid, and some states give more favorable treatment to pre-paid tuition plans and other college savings options.

[Student Aid on the Web](#) provides details on federal student aid programs, including grants, campus-based aid, work-study programs and loans. The Department of Education also streamlined the process for applying for financial aid, enabling parents and students to submit the [Free Application for Federal Student Aid \(FAFSA\)](#) online and monitor results. The FAFSA website also features the [FAFSA4caster tool](#), which estimates in advance how much aid your student could qualify for and how much the family might be expected to pay—referred to as the Expected Family Contribution (EFC). Another helpful website for understanding financial aid and determining eligibility is [FinAid! The SmartStudent® Guide to Financial Aid](#).

But remember that not all financial aid is a gift—about one-third of aid consists of loans.<sup>1</sup> While savings may decrease financial aid, you and your child will likely be in a much better financial situation on graduation day if you start saving for college now. The more you save, the less you will need to borrow.

<sup>1</sup> *Trends in Student Aid 2010*, The College Board.

---

# 43-year-old single mom strives to save for college and retirement

By Sarah Max @Money July 30, 2012: 5:58 AM ET

(MONEY Magazine) -- Soon after her 13-year marriage ended in 2008, Mary Beth Carr had an epiphany: She wanted a baby, even if she had to do it on her own.

Today she's the proud parent of 15-month-old Johnna, whom she had via a sperm donor.

Carr, 43, wants to fully pay for her daughter's college education and to retire shortly after Johnna graduates.

"But I don't have a financial backup," she says. So the Raleigh, N.C., resident, who works as a director at a communications firm, is maxing out her 401(k) and saving in an IRA (she has \$271,000 stashed). Plus, she's putting away \$200 a month for college.

A good start, but is it enough?

## Related: [\\$600K mortgage debt, wants to be stay-at-home mom](#)

Carr, whose total compensation is around \$136,000 a year, will need about \$2.5 million in order to cover Johnna's college and retire comfortably at 67.

Charlotte financial planner Ann Reilley Gugle estimates that Carr has about a 60% shot of getting there. Gugle offers advice for improving those odds.

### WHERE SHE STANDS

#### Total assets: \$748,700

- \$350,000 Home equity
- \$271,000 Retirement savings
- \$90,000 Cash and cash equivalents
- \$35,000 Brokerage accounts
- \$2,700 College savings

#### Total liabilities: \$0

### THREE FIXES

**Get more exposure.** Some 46% of Carr's savings is in large-company stocks; 43% is in cash and bonds.

Gugle suggests this mix instead: 33% large-caps, 7% small-caps, 15% international, 29% bonds, 10% alternatives, and 6% cash.

This move alone increases Carr's chances of getting to \$2.5 million to 72%, Gugle projects.

**Mortgage the house.** Carr rushed to erase the loan on her four-bedroom colonial.

Problem is, Gugle says, "almost half her wealth is now tied up in home equity." And real estate historically has returned only a hair more than the inflation rate.

Gugle suggests Carr borrow \$100,000 against her home to invest in hopes of better growth.

Carr can easily afford the \$477 payment, as much as \$333 of which is tax-deductible.

Assuming 7% annual returns on her investment, she'd have about \$533,000 in 24 years -- far exceeding the \$72,000 in interest on a 30-year loan at 4%; plus, she'll still benefit from appreciation on the house.

**Smarten up on college.** Carr should up her educational savings to \$500 a month.

Also, Johnna's 529 is split evenly between moderate and aggressive age-based portfolios, but Gugle advises Carr to switch entirely to the aggressive one, which invests more in stocks early on.

With annualized returns of 6%, she'll have \$184,000 in 17 years, which should come close to covering four years at a state school.

Stewart Plaza  
400 N. Mountain Avenue  
Suite 218  
Upland, CA 91786

**Cell:** (626) 497-6640  
**Fax:** (909) 946-1551  
**E-mail:** [patty@thesterling-ins.com](mailto:patty@thesterling-ins.com)