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College Planning

We all know the benefits of a college education--the ability to compete in today's competitive job market, increased earning power, and expanded horizons. But if you're like most parents, there are a lot of demands competing for your hard-earned dollars.

Making College a Reality

A college education can be one of the most important investments you'll ever make. But the benefits of increased earning power and expanded horizons come at a price--college is expensive. Factor in more than one child, and the financial picture can seem particularly bleak.

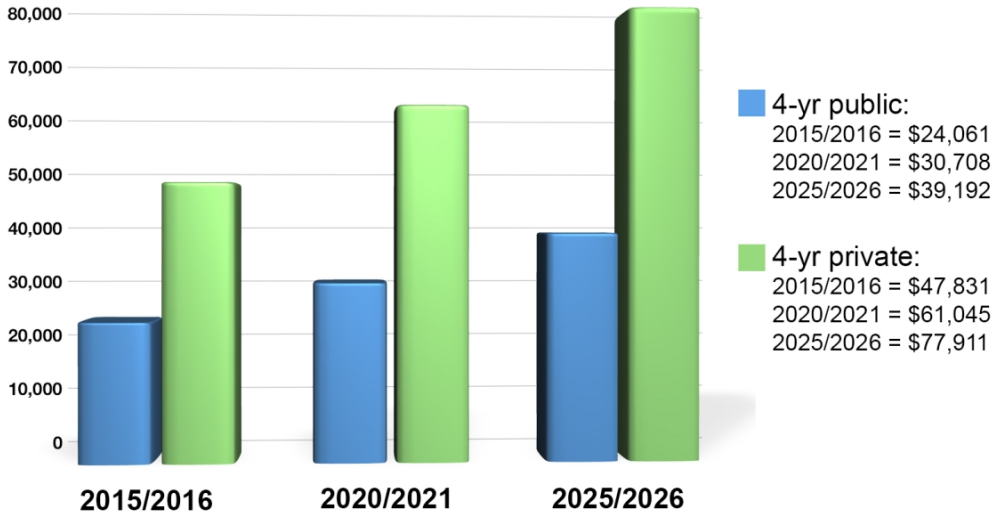
And yet, year after year, thousands of students graduate from college. Many families finance a college education with help from loans and other types of financial aid. But savings are the cornerstone of any successful college plan. Fortunately, there are several tax-advantaged college savings options that can help you accumulate money for college. The key is to understand your options and start saving whatever you can afford.

Why is it important to start saving now?

You should start saving for college now because next to buying a home, a college education might be the biggest purchase you ever make.

For the 2015/2016 academic year, the average cost of one year at a four-year public college is $24,061, while the average cost for one year at a four-year private college is $47,831. Many private colleges cost substantially more.

And it's likely that college costs will continue to rise. Over the past decade, college inflation has increased on average at a rate more than double that of general inflation.



Source: The College Board, Trends in College Pricing 2015. Cost figures include tuition, fees, room and board, books, transportation, and personal expenses. The figures assume an annual 5% college inflation rate.

Estimating Your Costs

It's hard to know exactly what college might cost in 5 or 10 years. This table can help give you an idea of what your future costs might be. Figures are based on the most recent data provided by the College Board and assume an annual 5% college inflation rate.

Year	4-Yr Public	4-Yr Private
2015/2016	$24,061	$47,831
2016/2017	$25,264	$50,222
2017/2018	$26,527	$52,733
2018/2019	$27,853	$55,370
2019/2020	$29,246	$58,138
2020/2021	$30,708	$61,045
2021/2022	$32,244	$64,098
2022/2023	$33,856	$67,303
2023/2024	$35,549	$70,668
2024/2025	$37,326	$74,201
2025/2026	$39,192	$77,911

Family information

This worksheet can help you note projected costs for your children.

Family Information

Child 1: _____
Years in college: _____
Projected costs: $_____

Child 2: _____
Years in college: _____
Projected costs: $_____

Child 3: _____
Years in college: _____
Projected costs: $_____

Child 4: _____
Years in college: _____
Projected costs: $_____

Notes _____

Don't worry about saving 100% of the total costs. Many families save only a portion of the total costs, which they use as a "down payment" of sorts--similar to the down payment on a home.

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Your current income is the most important factor in determining need, but other factors play a role, such as your total assets, how many family members are in college at the same time, and how close you are to retirement.

How Are You Going to Pay for College?

Typically, your savings will play only one part, albeit a big part, in the successful financing of your child's college education. In addition to your savings, some of your child's college costs might be covered by:

- Financial aid (loans, grants, scholarships, work-study)
- Your income during the college years
- Your child's earnings from a part-time job
- A home equity loan or other borrowing
- Gifts from grandparents or other relatives
- Creative cost-cutting measures (e.g., child lives at home, three-year degree program, etc.)

Financial aid

The term "financial aid" is synonymous with college. But unfortunately, this marriage is one of necessity, not love. For many families, financial aid is the bridge that enables them to successfully meet college costs.

Financial aid is money given primarily by the federal government and colleges in the form of loans, grants, scholarships, and work-study jobs. Loans and work-study must be repaid (either through monetary or work obligations), while grants and scholarships do not.

Most financial aid is based on need. Need is determined by examining your income, assets, and personal information that you are required to report on the federal government's aid application (the FAFSA) and the college's aid application (typically the PROFILE, but occasionally the college's own form). You can do a "dry run" of the FAFSA using the government's online FAFSA forecaster tool. In addition, every college is required to have a net price calculator on its website that you can use to get an estimate of how much aid your child might receive at that particular college based on your income and assets.

In addition to need-based aid, most colleges offer merit aid based on your child's academic, athletic, artistic, or other talent. Make sure to investigate sources of merit aid from the colleges your child is interested in.

The bottom line is don't rely too heavily on financial aid. Although aid can certainly help cover college costs, student loans make up the largest percentage of the typical aid package, not grants and scholarships. Here's a guide as to the percentage of expenses you can expect financial aid to cover:

- Loans--up to 50%
- Grants & scholarships--up to 15%
- Work-study--varies

Focus on Your Savings

Your savings are the most important part of any successful college financing plan. A smart move is to start saving now with whatever amount you can afford, adding to it over the years with raises, bonuses, tax refunds, and unexpected windfalls. Your child can also contribute to the college fund.

This table shows how your college fund can potentially grow over a period of years if you invest a certain amount of money each month.

Monthly Investment	5 Years	10 Years	15 Years	20 Years
$100	$6,977	$16,388	$29,082	$46,204
$300	$20,931	$49,164	$87,246	$138,612
$500	$34,885	$81,940	$145,409	$231,020

Figures assume an average after-tax investment return of 6%. The rate of return on your actual investment portfolio will be different and will vary over time, according to actual market performance. This is particularly true for long-term investments. It is important to note that investments offering the potential for higher rates of return also involve a higher degree of risk to principal.

This worksheet can help you document your expenses so you can see how much you might be able to save each month.

How Much Can You Save?

Monthly income: $ _____

Monthly expenses:

- Housing (mortgage, property taxes) $ _____
- Utilities (electricity, heat, water, cable, phone, etc.) $ _____
- Food (groceries, dining out) $ _____
- Transportation (gas, car maintenance) $ _____
- Child care $ _____
- Consumer debt (car, student loan, credit card) $ _____
- Clothing $ _____
- Insurance premiums (health, auto, life) $ _____
- Retirement contributions $ _____
- Entertainment $ _____
- Other _____ $ _____

Total monthly expenses: $ _____

Monthly amount you can save for college: $ _____

Think of your college savings as a down payment on the full sticker price, similar to a down payment on a home. A good rule of thumb is to aim to save at least 50% of your child's projected college costs.

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529 plans, Coverdell education savings accounts, and U.S. savings bonds all offer special federal tax advantages if they are used to pay qualified education expenses. UTMA/UGMA custodial accounts also offer some potential for tax savings.

College Savings Options

There are many college savings options to choose from (check any you already have):

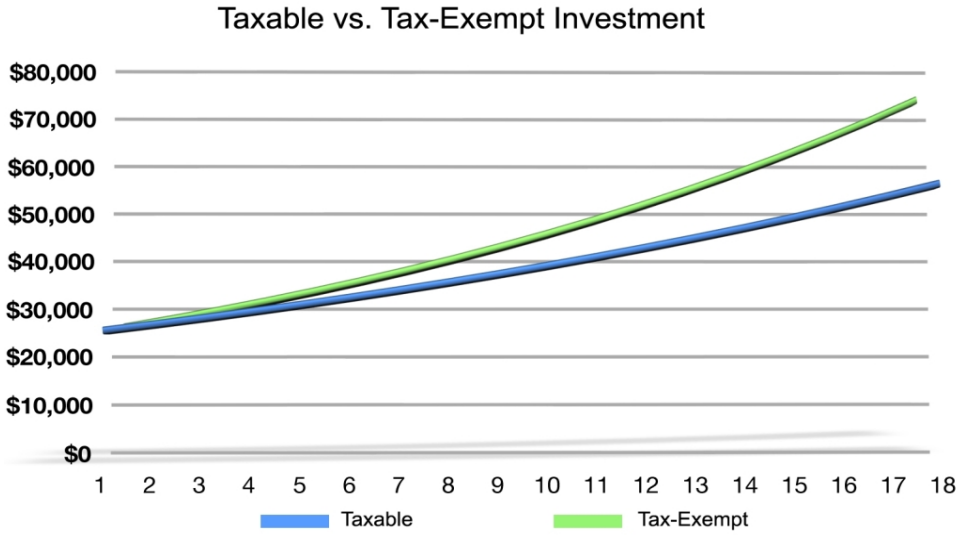
- 529 plans
- Coverdell education savings accounts
- U.S. savings bonds
- UTMA/UGMA custodial accounts
- Mutual funds & individual stocks

Not included in this list are CDs, money market accounts, and bank and credit union savings accounts. These vehicles may be a good place to park your short-term savings during the college years, but they probably shouldn't be the core of your long-term savings strategy because their rates of return won't help you keep up with college inflation.

Importance of tax advantages

You should consider tax-advantaged strategies whenever possible. The chart below shows the impact that federal income tax can have on your college savings.

Over 18 years, $25,000 held in a taxable investment earning 6% per year would have grown to $53,525. But that same $25,000 held in a tax-exempt investment, such as a 529 plan, would have grown to $71,358--a difference of $17,833.



Figures are based on a $25,000 initial investment, and assume an average 6% annual return and a 28% tax bracket. This is a hypothetical example and is not intended to reflect the actual performance of any specific investment, nor is it an estimate or guarantee of future value. The lower maximum tax rates on capital gains and qualified dividends would make the taxable investment more favorable than is shown on this chart. Investors should consider their personal investment horizons and income tax brackets, both current and anticipated.

529 Plans

College savings plans vs. prepaid tuition plans

There are two types of 529 plans: college savings plans and prepaid tuition plans. College savings plans are the more popular type of 529 plan--nearly all 50 states currently offer at least one type of college savings plan.

With either type of plan, you are the account owner and control the account, and your child is the beneficiary. Contributions grow tax deferred, and earnings on contributions are tax free at the federal level if they're used to pay qualified education expenses. Anyone can open a 529 account--there are no restrictions based on income.

But if contributions aren't used to pay qualified education expenses, the earnings portion of any withdrawal will be subject to income tax and a 10% federal penalty.

The following table illustrates some of the major differences between the two types of 529 plans.

College Savings Plan	Prepaid Tuition Plan
Offered by states	Offered by states and private colleges
You can join any plan	You are generally limited to your own state's plan
Contributions go into your individual account and are invested in the investment portfolios you select	Contributions are pooled with the contributions of others and invested by the plan
Returns aren't guaranteed	Generally, a certain rate of return is guaranteed
Money can be used at any college in U.S. or abroad accredited by U.S. Department of Education	Money can be used only at in-state public colleges or specific colleges that participate in the plan
Typically charge a flat annual maintenance fee and ongoing investment and management fees	Typically charge a flat enrollment fee and various administrative fees

A 529 plan is a tax-advantaged college savings vehicle. Earnings on contributions invested in a 529 plan are tax exempt at the federal level if used for qualified education expenses.

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Note: Investors should consider the investment objectives, risks, charges, and expenses associated with 529 plans before investing. More information about specific 529 plans is available in each issuer's official statement, which should be read carefully before investing. Also, before investing, consider whether your state offers a 529 plan that provides residents with favorable state tax benefits. As with other investments, there are generally fees and expenses associated with participation in a 529 savings plan. There is also the risk that the investments may lose money or not perform well enough to cover college costs as anticipated.

Your state's 529 plans and tax benefits

It's always a good idea to check out your own state's 529 plans first, because state tax benefits may depend on whether you invest in an in-state 529 plan.

This worksheet can help you note the 529 plans available in your state and the existence of any state tax benefits. Keep in mind that not all states offer tax benefits for 529 plan contributions or withdrawals.

Your state's college savings plan(s):

_____

_____

_____

Your state's prepaid tuition plan:

_____

Are qualified withdrawals tax exempt in your state?	Yes ___	No ___
Are plan contributions deductible in your state?	Yes ___	No ___
If yes, is there a cap on how much you can deduct?	Yes ___	No ___
Does either tax benefit depend on you choosing the in-state plan?	Yes ___	No ___

529 plans and estate planning

A 529 plan can be a smart way to save for college. But did you know that 529 plans also offer an excellent estate planning advantage in the form of accelerated gifting? This can be a favorable way for grandparents to contribute to their grandchildren's education while simultaneously paring down their estate.

Specifically, individuals can make a lump-sum gift to a 529 plan in 2016 of up to $70,000--$140,000 for married couples--and avoid gift tax if the gift is treated as having been made in equal installments over a five-year period and no additional gifts are made to that beneficiary during the five-year period. No other college savings vehicle offers this estate planning advantage.

Coverdell ESAs

A Coverdell education savings account is a tax-advantaged college savings vehicle that lets you contribute up to $2,000 per year for your child's elementary, secondary, and college expenses. Like a 529 plan, qualified withdrawals from a Coverdell ESA are tax free at the federal level, and nonqualified withdrawals are subject to a 10% penalty tax. But unlike a 529 plan, you must meet income limits to contribute to a Coverdell account.

	Individuals	**Married Couples**
To make a full $2,000 contribution in 2016, your income must be less than ...	$95,000	$190,000
To make a partial contribution in 2016, your income must be between ...	$95,000 and $110,000	$190,000 and $220,000

U.S. Savings Bonds

Anyone can buy U.S. savings bonds, and two types--Series EE and Series I--offer a special benefit for college savers. Specifically, interest earned on the bonds is exempt from federal income tax if the bonds are used to pay college expenses. But to get this tax benefit, you must meet income limits (as well as other requirements).

	Individuals	**Married Couples**
To exclude all of the interest in 2016, your income must be…	$77,550 or less	$116,300 or less
To exclude some of the interest in 2016, your income must be between…	$77,550 and $92,550	$116,300 and $146,300

UTMA/UGMA Custodial Accounts

An UTMA/UGMA custodial account is a way to hold assets in your child's name without having to establish a formal trust. Assets in the account are taxed each year at the tax rates in the following chart:

Child's Age	Account Earnings	Federal Tax
Under 19 (or 24)*	$0 - $1,050	Tax exempt
	$1,051 - $2,100	Child's rate
	Over $2,100	Parent's rate
19 (or 24) and older*	$0 - $1,050	Tax exempt
	Over $1,050	Child's rate

*The kiddie tax applies to all children under age 19, and to children who are full-time students under age 24 (unless an exception applies).

All contributions to a custodial account are irrevocable, and when your child turns 18 or 21 (depending on the state), he or she will receive any assets left in the account.

Which College Savings Options Are Right for You?

Building a solid college fund for your child or grandchild is more important than ever. Choosing the right savings options involves taking into account your income, time horizon, risk tolerance, and your personal preferences on issues like tax savings, investment control and flexibility, and asset ownership. The following table compares tax-advantaged college savings options.

College Savings Vehicles Compared

	529 Plans	Coverdell ESAs	U.S. Savings Bonds	Custodial Accounts
Eligibility restrictions	No	Yes	No	No
Low contribution limit	No	Yes	No	No
Full investment control	No	Yes	Yes	Yes
Parent retains ownership	Yes	Yes*	Yes	No
Tax-free earnings	Yes	Yes	Yes**	No
Penalty for non-college use of funds	Yes	Yes	No	No
Parent's asset for financial aid purposes (beneficial)	Yes***	Yes***	Yes	No
Fees	Yes	Yes	No	Yes

*Any funds remaining in a Coverdell ESA when the beneficiary reaches age 30 must be distributed to that beneficiary (except for a beneficiary with special needs).

**To exclude Series EE and Series I savings bond interest from federal income tax, certain income and other requirements must be met.

***Coverdell ESAs and 529 plans are counted as a parent asset if the parent is the account owner. Also, student-owned and UTMA/UGMA-owned 529 accounts are counted as a parent asset if the student is a dependent student.

A financial professional can help you determine which options are best for your family.

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Evaluating Your Situation

Whether you're embarking on a new college savings program or enhancing an existing one, it's a good idea to take stock of where you are today.

What options do you already have?	Child 1	Child 2
❑ 529 plan	$ _____	$ _____
❑ Coverdell ESA	$ _____	$ _____
❑ U.S. savings bonds	$ _____	$ _____
❑ UGMA/UTMA custodial account	$ _____	$ _____
❑ Mutual funds	$ _____	$ _____
❑ Stocks	$ _____	$ _____
Have grandparents earmarked any funds for college?	$ _____	$ _____
How much can you save each month?	$ _____	$ _____
What is your total college savings goal?	$ _____	$ _____

Financial aid issues

Do you understand basic financial aid information?

- Types of financial aid: loans, grants, scholarships, work-study
- Sources of financial aid
- Need-based aid vs. merit aid
- Calculation of EFC (expected family contribution) and financial need
- Major federal loan programs

Do you understand the financial aid impact of different savings options?

Have you considered positioning your income and assets to maximize aid eligibility?

Have you done a "dry run" through the financial aid formulas to estimate your EFC?

Balancing college savings with retirement savings

It's also important to consider how you will balance college savings with your retirement savings.

Have your retirement income needs been calculated? Yes ___ No ___

If yes, what is your long-term retirement savings goal? $_____

How much are you currently saving for retirement each month? $_____

Have other short-term and long-term financial goals been evaluated?

_____

_____

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The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested directly.
The information provided is not intended to be a substitute for specific individualized tax planning or legal advice. We suggest that you consult with a qualified tax or legal advisor.

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