TALCOTT MOUNTAIN ACADEMY
PARENT SUPPORT GROUP MEETING 2008-2009

FEBRUARY 25, 2009

7:00 PM

TALCOTT MOUNTAIN ACADEMY
324 MONTEVIDEO ROAD, AVON CT

Mr. Mark Briggs, CPA, CFP™, PFS

Briggs Wealth Management, LLC
Glastonbury, Connecticut
www.briggswealthmanagement.com

Mr. Briggs will discuss the best ways to save for your child's education

- **Understanding Educational Tax Credits**
- **ABC's of 529 plans**
- **Pro's & Con's of various savings vehicles**
- **Investing to keep pace with rising education costs**

Mr. Pellino will be taping the presentation. It will be available for viewing later on the TMSC web site.

Please contact Steven Shapiro at tmapsg@gmail.com or Dean Gibb at lgibb@tmsc.org with any questions about this meeting and presentation.

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AGENDA

This discussion will include:

- **Saving for College - Investment Vehicles Available**
- **Tax Benefits – Tax Credits and Deductions**
- **Paying for College - Federal Loans Available, Home Equity, Retirement Account**
- **Balancing Educational versus Other Financial Goals**

This discussion will not address:

- **Applying for Financial Aid**
- **Specific Investments**
- **Tips on choosing a College**

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Investment Vehicles Available For Educational Savings

529 Savings Plans

Coverdell Education Savings Plans

UTGA/UTMA – Uniform Gift to Minor Account

U.S. Savings Bonds

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529 Saving Plans

Description: **An individual makes a contribution into an investment account on behalf of a beneficiary to pay for future higher education expenses. Typically state sponsored programs (CHET).**

College Costs Covered: Tuition, fees, room, board, books, supplies and equipment. Room and Board expenses allowed only if child carries at least half of a full-time course load.

Advantages:

- **Professional investment management usually with choice of investment options to accommodate risk tolerance and time horizon of account owner**
- **Individual can give up to $13,000 per year per beneficiary without incurring gift tax. Additionally a 5 year election allows an individual to gift $65,000 in one year and not incur gift tax.**
- **Removes assets from taxable estate**
- **Tax Deferred Growth**
- **Qualified withdrawals are exempt from income tax**
- **May change beneficiary once every 12 months to another member of the beneficiaries family (no gift tax if within the same generation of the family)**
- **May change ownership of account (if permitted by plan)**
- **Donor retains ownership of account**
- **No income limits to make contributions (plans have limits)**
- **State tax deduction if CHET plan is used for a CT resident**

Disadvantages:

- **Restricted Investment Choices – limited to plan's offering**
- **Ability to only make one strategy change a year (2009 is exception)**
- **Non-qualified distributions subject to income tax on earnings plus 10% penalty**
- **Can be difficult to compare various state plans**

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Coverdell Education Savings Account

Description: **An account created for the purpose of paying educational expenses for a beneficiary**.

College Costs Covered: **Tuition, fees, room, board, books, supplies and equipment. Room and Board expenses allowed only if child carries at least half of a full-time course load.** ***May also be used for elementary and secondary school expenses including tuition, fee, tutoring, books, supplies, equipment, uniforms, transportation, purchase of computer technology and internet access.***

Advantages:

- **Tax Deferred Growth**
- **Qualified withdrawals exempt from income tax**
- **May be used for elementary and secondary educational expenses**
- **More investment choices**
- **May change beneficiary once a year**
- **Flexibility to rollover Coverdell ESA to a 529 plan for same beneficiary**
- **Can make contributions up to April 15th of the following year**
- **Contributing to an ESA does not impair ability to contribute to a 529**

Disadvantages:

- **Annual contribution limited to $2,000 per beneficiary**
- **Contributions can't be made after beneficiary turns 18 years old**
- **Account must be used by the time the beneficiary turns 30 years old. If not used, account must either be distributed with taxes and penalty on the earnings or rolled over to another family member if the new beneficiary is younger**
- **Contributor's income must be less than $110,000 single or $220,000 joint to contribute**
- **Financial Aid may treat as asset of child**

UTGA/UTMA – Uniform Gift to Minor Account

Description: A custodial account established at a financial institution for a minor child and managed by a parent or other designated custodian. **The account is set up in child's name and under child's Social Security number.**

College Costs Covered: Not restricted to just college. Must be used for child's benefit.

Advantages:

- **Contribution flexibility no limit on investment choices**
- **Costs to create and maintain are low**
- **Taxed at child's tax rate (1st $900 is not taxed, next $900 taxed at child's rate, over $1,800 tax at parents rate). Often called the "Kiddie Tax"**

Disadvantages:

- **At age 18 control of account funds is transferred to child**
- **Can't change beneficiary**
- **"Kiddie Tax" now applies to children up to age 24 if full time student**
- **Limited to $13,000 per year contribution or gift tax**
- **Counted more toward financial aid**

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U.S Savings Bonds

Description: **Qualified savings bonds include Series EE bonds issued after 1989 and all Series I Bonds.**

College Costs Covered: **Limited to Tuition and required fees of higher education programs (college) for the bond owner, spouse or dependent child.**

Advantages:

- **Interest exempt from income tax for qualified educational expenses**
- **Interest is always exempt for state tax (U.S. Government obligation)**
- **Safe investment – backed by U.S. Government**
- **Easy to purchase**
- **Flexibility to rollover bond proceeds to Coverdell ESA or 529 account**
- **You may retain control of bonds as long as they are in your name.**
- **Treated as asset of parent for financial aid**

Disadvantages:

- **Rate of return may not keep up with college inflation**
- **Limited qualified education costs**
- **Phase out limits ($100,650-$130,650 joint or $67,100-$82,100 Single) may require part of earning to be taxable**
- **Maximum contribution is $15,000 for EE's and $5,000 for I-bonds**

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	529 plans	Coverdell ESA	U.S. savings bonds	Custodial account
Participation restrictions	No (though state-run prepaid tuition plans are generally limited to state residents)	Yes, income limit for contributions and $2,000 maximum annual contribution per child*	No, but ability to exclude bond proceeds from federal income tax depends on income	No
Investment control (of the underlying investments)	No	Yes	Yes	Yes
Federal tax-exempt withdrawals (if funds are used for qualified education expenses)	Yes (withdrawals may also be exempt from state income tax, depending on state law)	Yes (withdrawals may also be exempt from state income tax, depending on state law)	Yes, but income limits and other requirements must be met (bond proceeds are generally exempt from state income tax)	No
Penalties (if funds aren't used for qualified education expenses)	Yes, a 10 percent federal penalty applies to the earnings portion of all nonqualified withdrawals (a state penalty may also apply)	Same as 529 plans	No, but the bond proceeds won't be exempt from federal income tax	No, but withdrawals from the account can only be made for the child's benefit
Federal financial aid treatment (student assets are weighed more heavily than parent assets)	Parent asset (if parent is account owner)	Parent asset (if parent is account owner)	Parent asset (if parent is owner of bonds)	Student asset

Fees and expenses	**College savings plan:** typically an annual maintenance fee, administration fees, and investment expenses based on a percentage of total account value **Prepaid tuition plan:** typically an enrollment fee and various administrative fees	There may be fees associated with opening and/or maintaining an account, depending on financial institution	No fees or expenses, except for the possibility of brokerage fees if bonds are purchased through a broker	There may be fees associated with opening and/or maintaining an account, depending on financial institution

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Tax Credits and Deductions

- **Hope Credit**
- **Lifetime Living Credit**
- **Tuition and Fees Deduction**

The Hope Credit

- The Hope credit is a nonrefundable tax credit that covers the first two years of your child's undergraduate education. Undergraduate education that qualifies, as defined by the IRS, is generally any post-secondary school that offers a degree program and is eligible to participate in federal aid programs.

  Qualifying Expenses include tuition and fees required for the student's enrollment only. The Hope Credit is worth a maximum of $1,800. It's calculated as 100 percent of the first $1,200 of tuition and fees, plus 50 percent of the next $1,200 of such expenses.

  Expenses qualify in the tax year paid.

  The credit is per student per year. A family may have more than one eligible student.

  Qualifying expenses paid by a student are considered to have been paid by the parent if the student is claimed as a dependent on parent's tax return.

- Your child must attend college on at least a half-time basis. You must claim your child as a dependent on your tax return. You can't take both the Hope credit and the Lifetime Learning credit in the same year for the same student.
- Education expenses paid using a tax-free distribution from your 529 plan or Coverdell education savings account do not qualify.
- Credit is phased out $96,000-$116,000 Joint and $48,000-58,000 Single

Lifetime Learning Credit

The Lifetime Learning Credit is a non-refundable tax credit for the qualified education expenses that you, your spouse, or your child incur. It covers the tuition expenses of graduate students and students enrolled less than half-time. Non-degree courses are eligible along with individuals acquiring or improving their job skills.

The Lifetime Learning Credit is generally worth a maximum of $2,000. It's calculated as 20 percent of the first $10,000 of tuition and related expenses that you've paid for the year.

One major difference between the Hope Credit and the Lifetime Learning Credit is that the Lifetime Learning Credit is limited to a total of $2,000 per tax return, regardless of the number of students in a family who may qualify in a given year. If you have twins who are in their senior year of college, your Lifetime Learning Credit would be worth $2,000, not $4,000.

As with the Hope Credit, tax free distribution from your 529 plan or Coverdell ESA used to pay education costs do not qualify.

Credit is phased out $96,000-$116,000 Joint and $48,000-58,000 Single (Same as Hope Credit)

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Tuition and Fees Deduction (IRS form 8917)

- **Taxpayers are allowed to claim an above-the-line deduction for tuition and required fees paid for qualified higher education expenses.**
- **Deduction is for qualified education expenses that you, your spouse, or your child has paid.**
- **Same definitions for qualified expenses as Hope and Lifetime Credit**
- **Expenses qualify in the tax year paid**
- **Deduction limit is $4,000 if under $130,000 Joint $65,000 Single**
- **Deduction limit is $2,000 if $130,000-$160,000 Joint and $65,000-$80,000 single**
- **No deduction if income is over $160,000 Joint and $80,000 Single**

Comparison of Education Tax Credits and Deductions

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	Hope credit	Lifetime Learning credit	Student loan interest deduction	Deduction for qualified higher education expenses
Credit/deduction applies to	Qualified tuition and related expenses for first two years of undergraduate education	Qualified tuition and related expenses for courses taken throughout lifetime to improve or acquire job skills	Interest paid on a qualified student loan	Qualified higher education expenses paid during the year
Qualified education expenses include room and board?	No	No	Yes	No
Amount of credit/deduction	$1,800 maximum	$2,000 maximum	$2,500 maximum	$4,000 maximum
Income limits on who is eligible to take credit/deduction	**Single filers:** full credit available if modified adjusted gross income (MAGI) $50,000 or less (in 2009, $48,000 in 2008) (Partial credit available if MAGI between $50,000 and $60,000 in 2009; $48,000 and $58,000 in 2008) **Joint filers:** full credit available if MAGI $100,000 or less in 2009 ($96,000 or less in 2008) (Partial credit available if MAGI between $100,000 and $120,000 in 2009; $96,000 and $116,000 in 2008)	Same as Hope credit	**Single filers:** full deduction available if modified adjusted gross income (MAGI) $60,000 or less (in 2009; $55,000 in 2008) (Partial deduction available if MAGI between $60,000 and $75,000 in 2009 ($55,000 and $70,000 in 2008) **Joint filers:** full deduction available if MAGI $120,000 or less in 2009; $115,000 in 2008 (Partial deduction available if MAGI between $120,000 and $150,000 in 2009; $115,000 and $145,000 in 2008)	**Single filers:** $4,000 deduction available if modified adjusted gross income (MAGI) $65,000 or less, $2,000 deduction available if MAGI between $65,000 and $80,000 (for 2009 and 2008) **Joint filers:** $4,000 deduction available if MAGI $130,000 or less, $2,000 deduction available if MAGI between $130,000 and $160,000 (for 2009 and 2008)

Paying for College

Federal Loans Available

Perkins Loan – Used for both graduate and undergraduate students with financial need. The college is the lender but the loan is made with both government funds and school funds. The loan must be repaid to the school. Usually student must have exceptional financial need.

Stafford Loan – Loan can be subsidized or unsubsidized. A subsidized loan is awarded on the basis of financial need. Unsubsidized loan - student is charged interest from the time the loan is disbursed, however payments are deferred while student is still in school. You must submit a FAFSA form to be eligible. Nearly all students are eligible regardless of credit. Students must be enrolled at least half-time. Interest rate is fixed (currently at 6.80%). The maximum loan amount is $2,000 unsubsidized for dependent students (each year).

Plus Loans (Parents Loans for Undergraduate Students).

Loans are guaranteed by the Federal Government and are loans to parents (with good credit) not students. Parents can borrow the total cost of an undergraduate education. Interest rates are currently fixed at 8.5%. There is a fee of up to 4% for the origination and

administration of the loan (deducted from your payments). A student must be a dependent and enrolled at least half-time. Parents must begin repaying the loan within 60 days of receiving the money. The student's school may require FAFSA form application. Loans require no collateral.

Other Ways To Pay For School

- Grandparent can pay tuition directly without any gift tax problems

Should I take out a home equity loan to pay for my child's tuition?

- A home equity loan is secured by the equity you have built up in your home. It can be structured as either a revolving line of credit or second mortgage.

With a **revolving line of credit**, your lender establishes a credit limit that depends on the amount of equity you have built up in your home and your ability to make payments. Generally, interest rates are variable and tied to an index, but may be guaranteed for an initial period (e.g., two years). Your monthly payments will also vary, depending upon your outstanding balance.

If the home equity loan is structured as a **second mortgage**, you borrow a fixed amount (typically no more than 80 percent of the equity in your home) that is transferred to you in full at the time of the closing. You must then repay that amount over a fixed term, just like you do on your original mortgage.

- The advantages of a home equity loan include tax- deductible interest and in most cases, a more favorable interest rate than traditional loans.

- The disadvantages are that a home equity loan puts your home at risk because it serves as collateral for the loan. You may have to pay closing costs, points, and other fees to obtain the loan.

Should you use your 401k or IRA to fund college?

401k

You can, but it probably isn't your best option. 401(k) plans should be dedicated primarily to your retirement.

There are two primary drawbacks to using your 401(k) for college funding.

First of all, a 10% premature distribution penalty applies if before age 59.5. Additionally, you may owe taxes on the withdrawal amount.

Secondly, the amount of money you have growing tax deferred decreases.

A better way is to borrow from your 401k (if your plan allows for loans). No taxes due. The amount you may borrow may be limited. One must usually pay back the loan in 5 years (full pay back often required of you separate from service).

IRA'S and ROTH IRA'S MAY BE BETTER THAN 401K

With these IRAs, you will **not owe the 10 percent** premature distribution penalty on withdrawals you make before age 59½, as long as the money is used to pay your child's college expenses.

Assuming that you have a traditional IRA or Roth IRA, you'll want to consider the financial consequences before making a decision. You'll want to evaluate any fund withdrawals based on several factors:

- How far away from retirement you are
- The size of your retirement fund
- The amount of money you intend to withdraw
- Whether or not you have other sources of cash available
- The tax consequences of a withdrawal

If your retirement is close, you'll need to look carefully at the impact of any withdrawal on your retirement plans. If the IRA is your sole retirement fund, you'll want to investigate alternatives. Smaller withdrawals against an IRA, as part of a broader college funding plan, may be fine particularly if the IRA is only part of a larger retirement plan.

SAVING FOR RETIREMENT AND A CHILD'S EDUCATION AT THE SAME TIME

How do you juggle the two? The truth is, saving for your retirement and your child's education at the same time can be a challenge. You may be able to reach both goals if you make some smart choices now.

Know what your financial needs are

The first step is to determine what your financial needs are for each goal. Answering the following questions can help you get started:

For retirement:

- How many years until you retire?
- Does your company offer an employer-sponsored retirement plan or a pension plan? Do you participate? If so, what's your balance? Can you estimate what your balance will be when you retire?
- How much do you expect to receive in Social Security benefits? (You can estimate this amount by using your Personal Earnings and Benefit Statement, now mailed every year by the Social Security Administration.)

- What standard of living do you hope to have in retirement? Do you want to travel extensively and live the good life, or will you be happy to stay in one place and live more simply?
- Do you or your spouse expect to work part-time in retirement?

For college:

- How many years until your child starts college?
- Will your child attend a public or private college? What's the expected cost?
- Do you have more than one child whom you'll be saving for?
- Does your child have any special academic, athletic, or artistic skills that could lead to a scholarship?
- Do you expect your child to qualify for financial aid?

Many on-line calculators are available to help you predict your retirement income needs and your child's college funding needs.

Figure out what you can afford to put aside each month

You'll need to prepare a detailed family budget that lists all of your income and expenses. Keep in mind, though, that the amount you can afford may change from time to time as your circumstances change. Once you've come up with a dollar amount, you'll need to decide how to allocate your funds.

Retirement takes priority

Though college is certainly an important goal, you should probably focus on your retirement if you have limited funds. If you wait until your child is in college to start saving, you'll miss out on years of tax-deferred growth and compounding of your money. Remember, your child can always attend college by taking out loans but there's **no such thing as a retirement loan!**

If possible, save for your retirement and your child's college at the same time

Ideally, you'll want to try to pursue both goals at the same time. The more money you can put aside for college now, the less money you or your child will need to borrow later.

Even if you can allocate only a small amount to your child's college fund, say $50 or $100 a month, you might be surprised at how much you can accumulate over many years. For example, if you saved $100 every month and earned 8 percent, you'd have $18,415 in your child's college fund after 10 years.

Each goal should be treated independently.

Help! I can't meet both goals

If the numbers say that you can't afford to educate your child or retire with the lifestyle you expected, you'll have to make some adjustments. Here are some things you can do:

- Defer retirement:
- Work part-time during retirement.
- Reduce your standard of living now or in retirement:
- Increase your earnings, finding another job with better pay, taking a second job, or having a previously stay-at-home spouse return to the workforce.
- Invest more aggressively:
- Expect your child to contribute more money to college: Your child may need to take out student loans or work part-time to earn money for college.
- Send your child to a less expensive school:

- Enroll in an accelerated program to graduate in three years instead for four
- Defer college for a year or two and work to earn money for college. Take advantage of paid internships

Helpful Web Site

www.savingforcollege.com

Questions?

Individual Tax Breaks in the Stimulus Bill

Higher education: The American opportunity tax credit is a temporary (for tax years beginning in 2009 and 2010) increase and expansion of the **Hope scholarship credit** (IRC § 25A(i)).

It increases the maximum credit per student from $1,800 to $2,500

Extends its availability from the first two years of postsecondary education to four years.

Nonrefundable under prior law, the credit now becomes 40% refundable.

The phaseout range is increased from the current $50,000–$60,000 for single filers to $80,000–$90,000. The joint filer phaseout, currently $100,000–$120,000, increases to $160,000–$180,000.

Expenses for course materials, such as textbooks, are added to the definition of qualified tuition and related expenses eligible for the credit.

Section 529 plans may buy computers: For 2009 and 2010, the cost of computers and related technology qualifies as higher education expenses for purposes of the rules governing distributions from a section 529 qualified tuition plan, as long as the beneficiary of the plan is enrolled at an eligible educational institution.

Internet access charges are also covered, as well as software, so long as it's not for sports, games or hobbies (unless the software is predominantly educational in nature).