# Education Planning and Funding

## College savings tools

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Presentation Courtesy of Columbia Management:

Financial Services at FMFCU

# Agenda

- The rising cost of college
- Paying for college
- The financial aid formula
- Section 529

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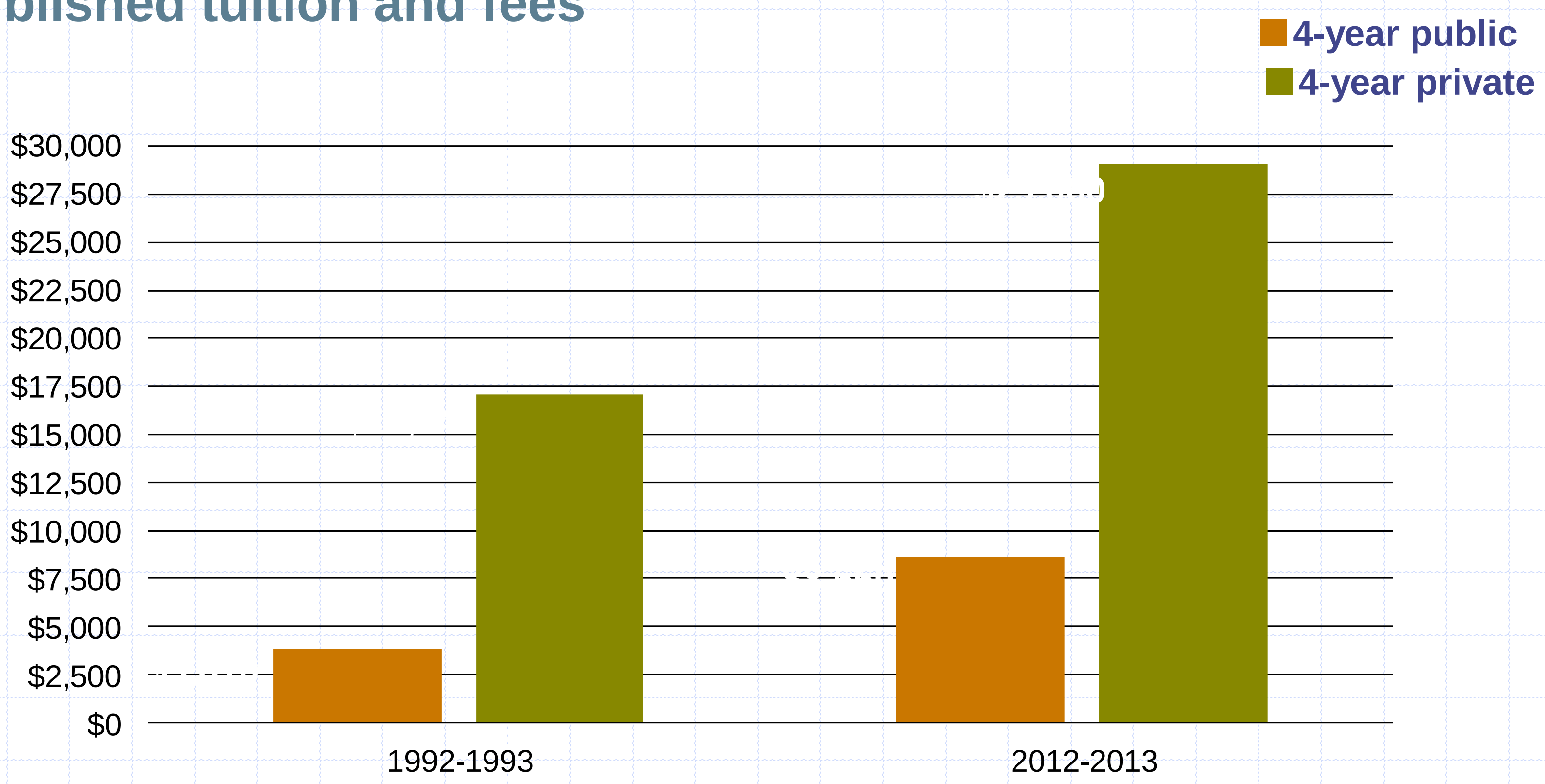
# Increasing college costs

## Published tuition and fees




Source: *Trends in College Pricing,* ©2012 The College Board, **collegeboard.com**

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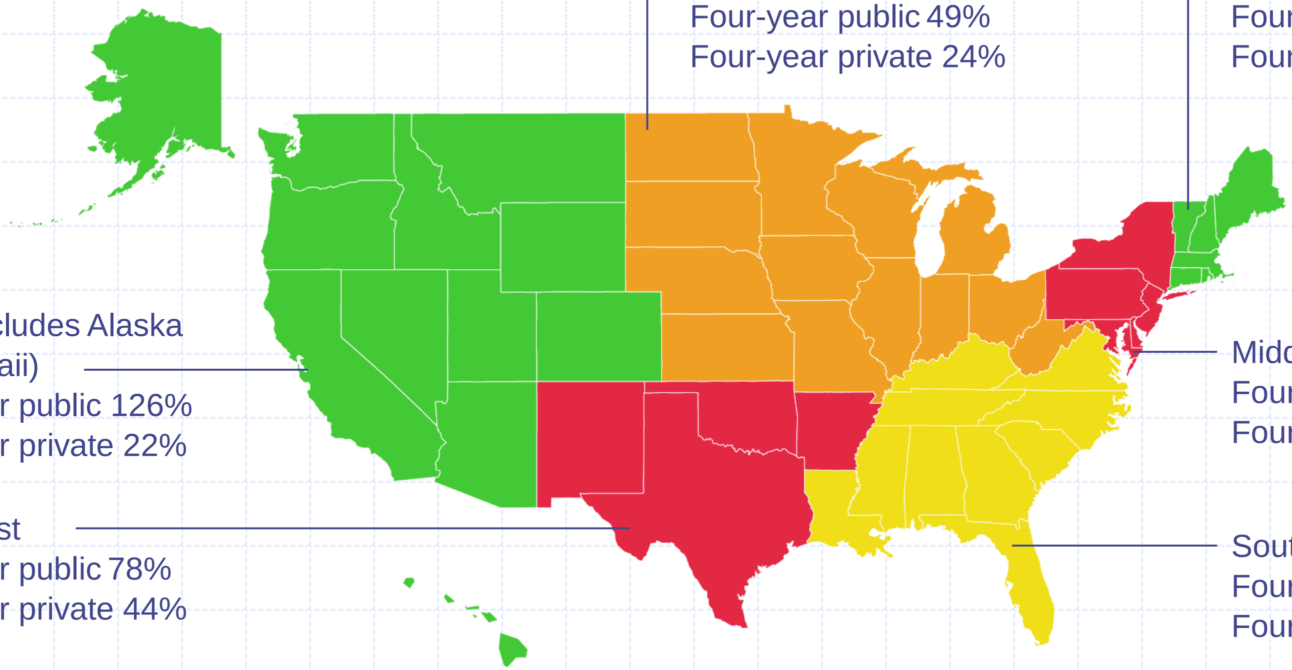
# Going away to college?

## Average tuition and fee growth by region from 2002–2003 through 2012–2013

Midwest
Four-year public 49%
Four-year private 24%

New England
Four-year public 62%
Four-year private 22%



West (includes Alaska and Hawaii)
Four-year public 126%
Four-year private 22%

Southwest
Four-year public 78%
Four-year private 44%

Middle states
Four-year public 30%
Four-year private 18%

South
Four-year public 77%
Four-year private 26%

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Source: *Trends in College Pricing*, ©2012 The College Board, **collegeboard.com**

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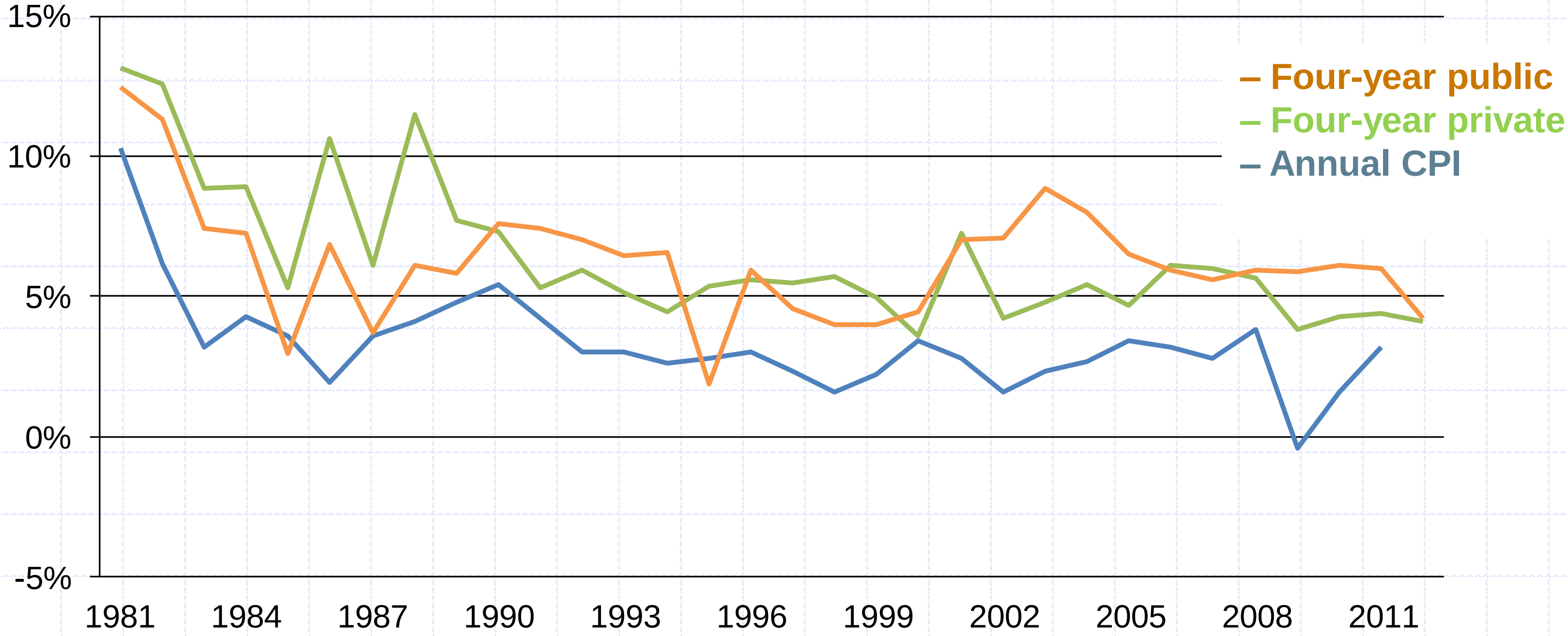
# College vs. general inflation 1981–2011

## Change in tuition, fees, room and board annually relative to CPI




Note: Chart illustrates rounded figures

Sources: *Trends in College Pricing*, © 2012 The College Board, **collegeboard.com**;

CPI: U.S. Department of Labor Bureau of Labor Statistics, 2011

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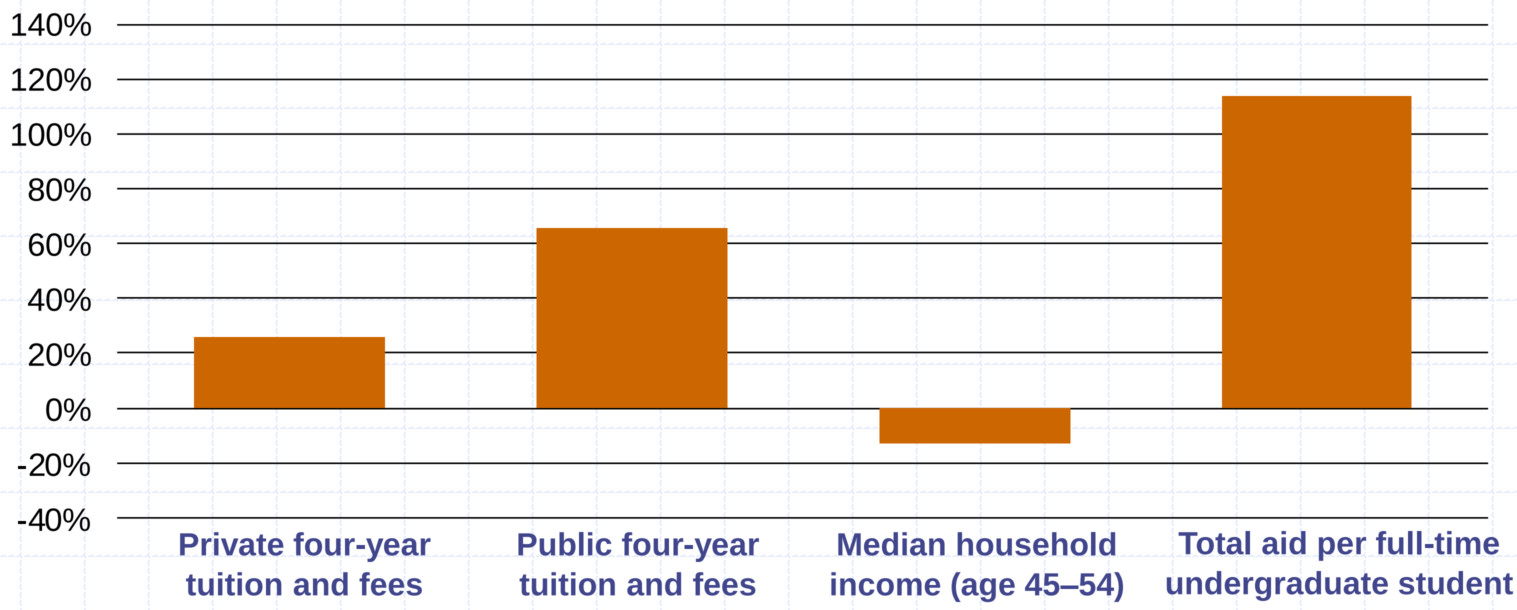
# Tuition increases in relation to income and aid

## Inflation-adjusted changes in tuition, fees, household income and student aid over the last decade




Sources: *Trends in Student Aid* and *Trends in College Pricing*, ©2012 The College Board, **collegeboard.com**; U.S. Census Bureau, *Current Population Survey*, historical table H-10AR (in 2011 dollars)

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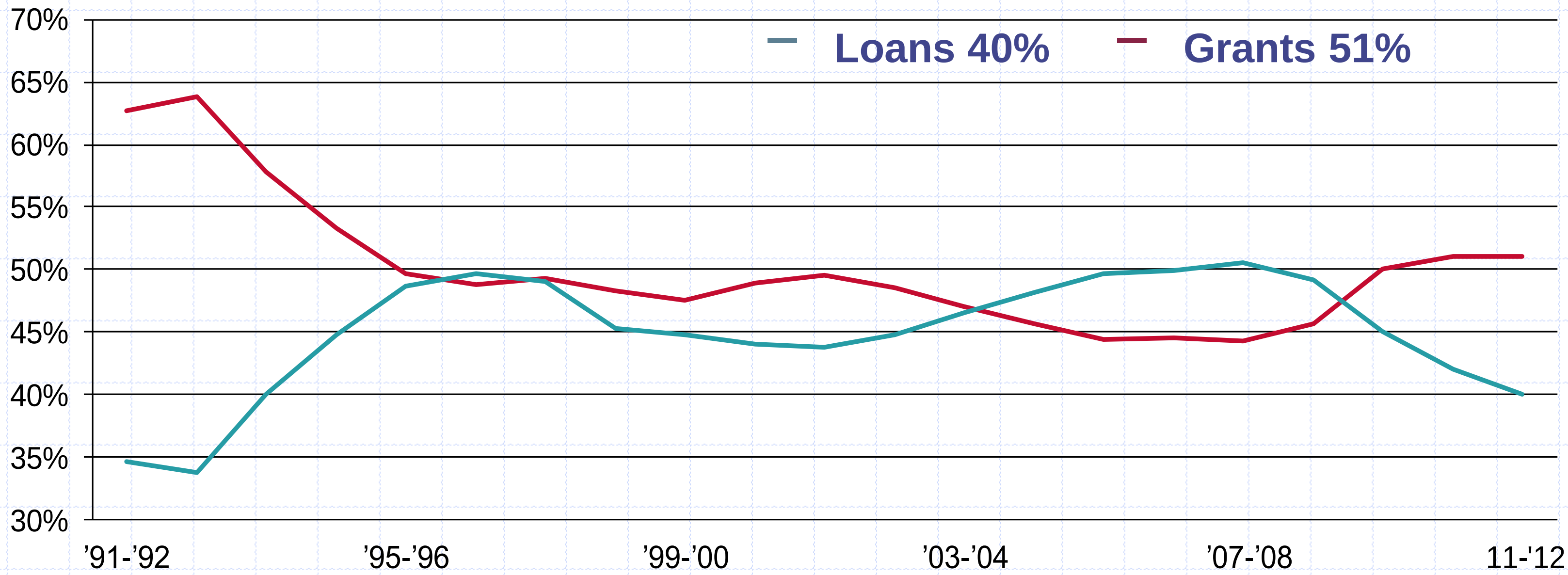
# Paying the piper

## Undergraduate grants vs. loans, 1991–1992 to 2011–2012




**1991–92 Total undergraduate aid: $44.3 billion**

**2011–12 Total undergraduate aid: $191.8 billion**

Source: *Trends in Student Aid,* © 2012 The College Board, **collegeboard.com**

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# When it comes time to pay

## A large cost over a short time period

Example: A family with children ages five and three

- Sally will attend an in-state university
- John will attend a private university
- College starts at age 18
- Planned savings and amount saved are $0
- The estimates use average costs based on information from The College Board for public and private school tuition, fees, room and board, and an assumed 5% average annual increase

Source: Archimedes Education Funding Planner at columbiamanagement.com

This calculator is for hypothetical use only and depends on the information you provide. The calculations rely on a number of simplifying assumptions, and the results may vary from your actual situation. Because tax laws change and the states adjust their 529 plans frequently, there is no guarantee that the information used in this calculator is accurate or up-to-date. For more information about your state's 529 plan, and to fully consider your personal tax situation, consult your tax advisor.

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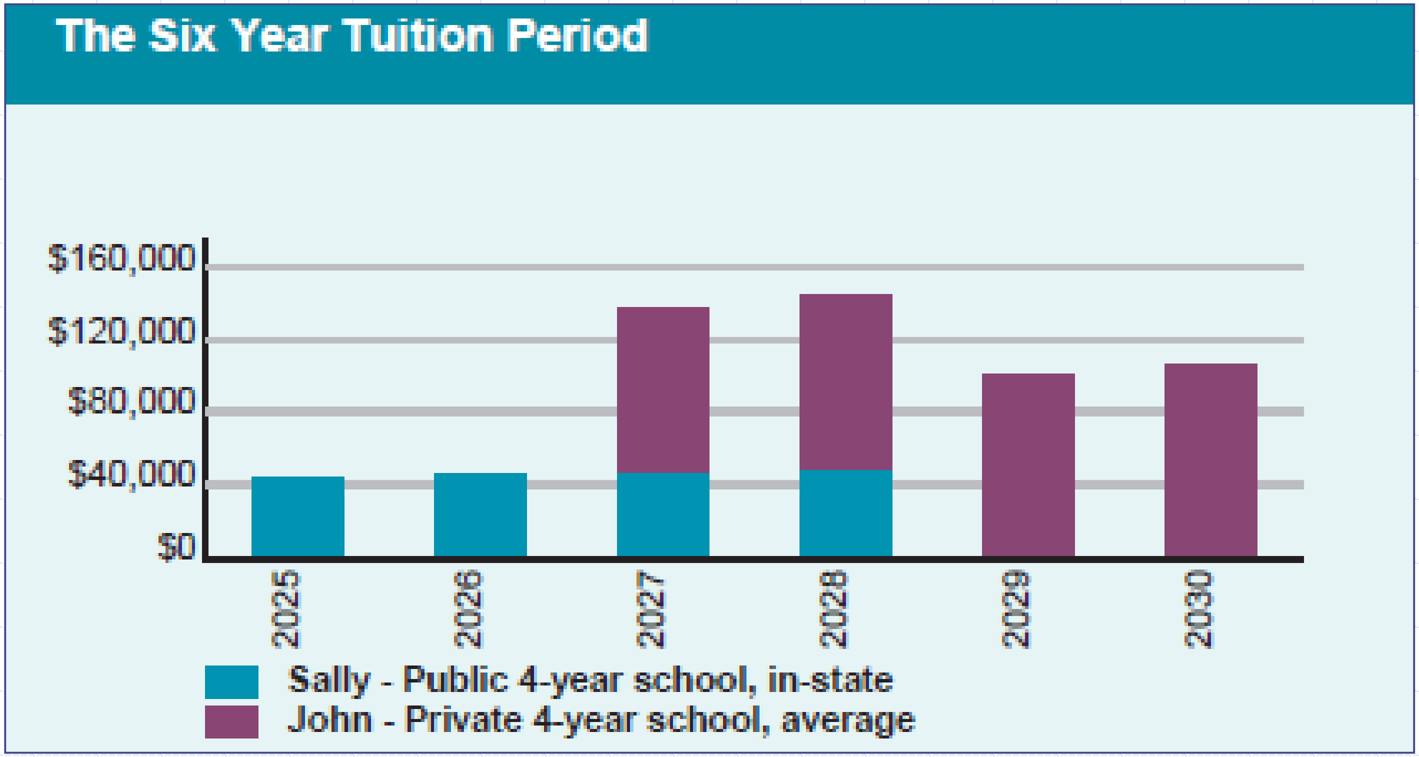
# When it comes time to pay

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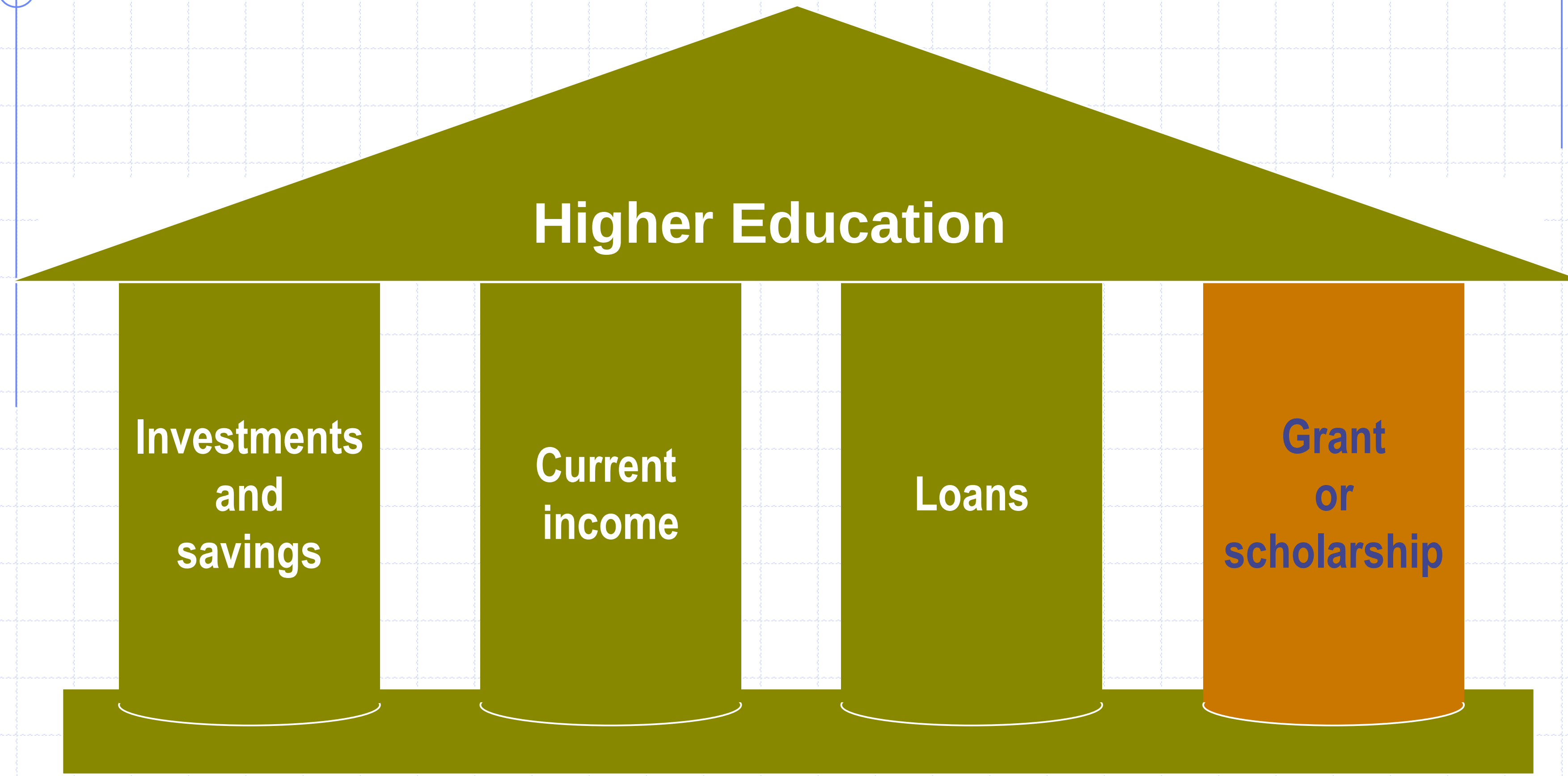
# Paying for college

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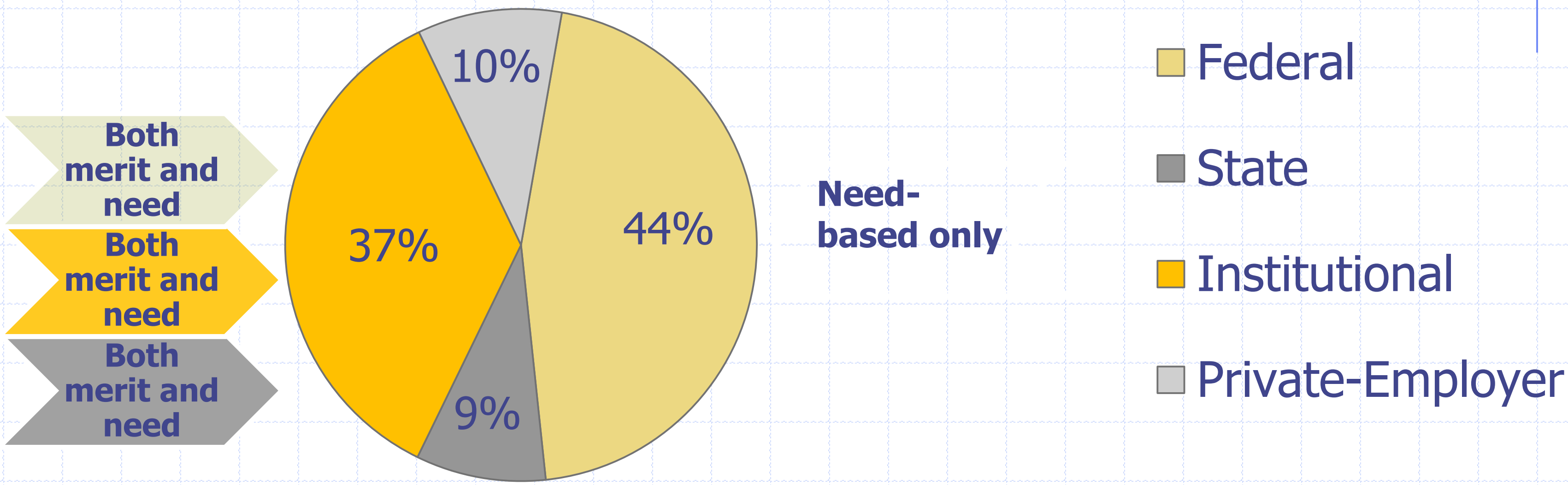
# Affluent families can also get merit-based grants

## Grant breakdown by source, 2011–2012




Source: *Trends in Student Aid,* © 2012 The College Board,
**collegeboard.com**

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# Applying for financial aid

Schools require the Free Application for Federal Student Aid (FAFSA) every year

- Private institutions require the CSS/Financial Aid PROFILE® or their own custom aid form in the first year
- The family must submit information for each student, to all schools that the student applies to for admission
- The end result of the FAFSA process is a figure called Expected Family Contribution (EFC)
  - EFC is what your family is expected to pay before there is financial need


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# The financial aid formula

## How is the financial aid formula structured?

| | Parents | Students |
|---|---|---|
| Income | 22%–47% of available income[1] | 50% of adjusted gross income over $6,130[2] |
| Assets | 0%–5.64% of assets[3] | 20% of assets held in student's name[4] |

[1] Available income is the amount of parental adjusted gross income after allowances for federal, state, local and FICA taxes, as well as income protection allowance based on the number of people in the household.

[2] $6,130 is for the 2013–2014 academic year; $6,000 is for the 2012–2013 academic year.

[3] Assets held in qualified retirement plans, such as IRAs, are not considered in determining eligibility for federal student aid. The percentage of other assets considered in determining EFC will vary based on the amount of assets, the age of the eldest parent and whether there are one or two parents.

[4] 529 plans that are owned by a student or parent are treated as parental assets in the federal financial aid calculation.

Sources: U.S. Department of Education and Federal Student Aid, "The EFC Formula 2013–2014"

# Calculating EFC

## Scenario: Family of four, currently one college-age student with no income, eldest parent is 48

| Parent Income | Parent Assets | Student Assets | EFC |
|---|---|---|---|
| $100K | None | None | $18,940 |
| $150K | None | None | $32,130 |
| $100K | None | $50K | $28,940 |
| $100K | $50K | None | $19,250 |

Source: Columbia Management Quick Expected Family Contribution (EFC) Calculator, powered by Savingforcollege.com, columbiamanagement.com/calculators

**This is a hypothetical example for illustrative purposes only.**

Results are an approximation only. Keep in mind that the estimate of financial need shown above can vary significantly among the schools to which you are applying for aid. This is because each institution is allowed to set its own policy about how to determine eligibility for their private funds. Your final offer of financial aid may be higher or lower than is indicated by this calculator. The calculator is not intended to provide investment advice nor does it reflect all the various institutional aid policies that may affect the student's final aid award package.

# How financial need is determined

**Cost of attendance – EFC = Financial need**

| | Indiana University | Valparaiso University |
|---|---|---|
| Cost of attendance | **$18,888** | **$41,414** |
| EFC | **$18,940** | **$18,940** |
| **Financial need** | **$0** | **$22,474** |

This page presents an **approximation** of your expected family contribution (EFC). **The results are only an approximation of the federal EFC figure that is calculated when you file the FAFSA form.**

This calculator omits those input variables that have a relatively minimal impact on the EFC results, substituting average values. This yields a much simpler but also less accurate calculator. The results are likely to be within $500 of the correct results for typical students.

Sources: 2012–2013 cost of attendance, Archimedes College Cost Projector; EFC, Quick Expected Family Contribution (EFC) calculator, powered by Savingforcollege.com; columbiamanagement.com/calculators

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# Dispersing financial aid

## How financial aid is given out

- Financial aid office determines financial aid package
- Federal aid strictly need-based
- Institutional aid increasingly merit-based
- Cost of attendance – EFC = Financial need
- Just because there is a need doesn't mean it will be filled
- Someone without financial need could get institutional aid for reasons of:
  - Merit
  - Demographics
  - Institutional economic concerns

# Thinking about borrowing?

## Loan options available

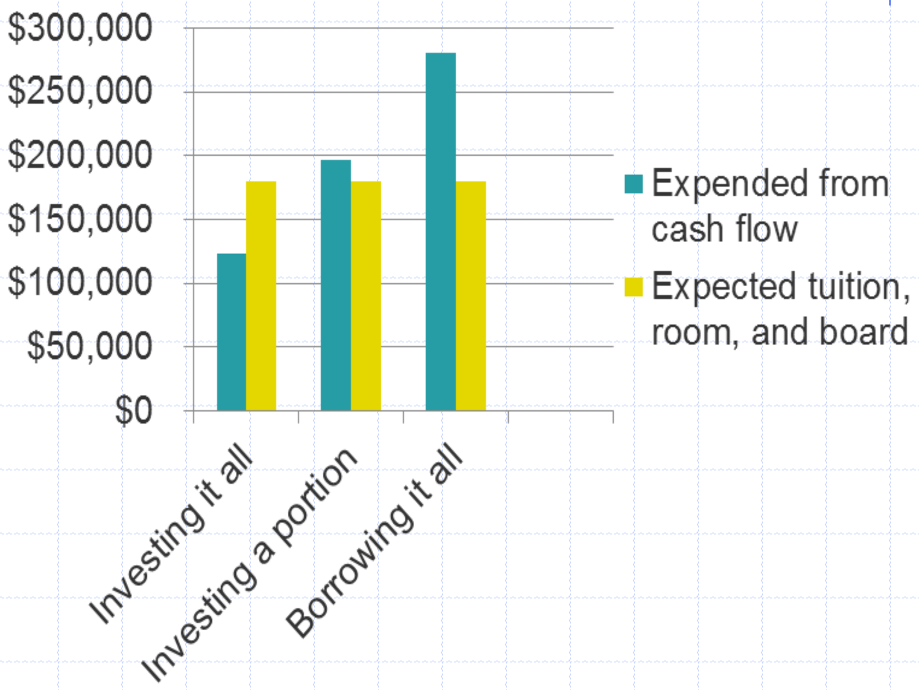
- Federal loans, such as the Stafford loan for students and the PLUS loan for parents, have traditionally been below market interest rates
- For the 2012–2013 academic year, federal loan interest rates are:
  - Stafford loan (undergraduate unsubsidized student): 6.8%
  - Direct PLUS loan (parent): 7.9%
- Non-federal private education loans have generally higher interest rates
- Loans are a viable part of education financing, but keep in mind total reliance on loans could significantly increase costs

Source: finaid.org

# Save now, or borrow later

## The difference between saving through a 529 plan or borrowing

- A family with one child, Sam, age three
- Sam's parents have a target savings goal of $180,000 for his college education




Source: Columbia Management

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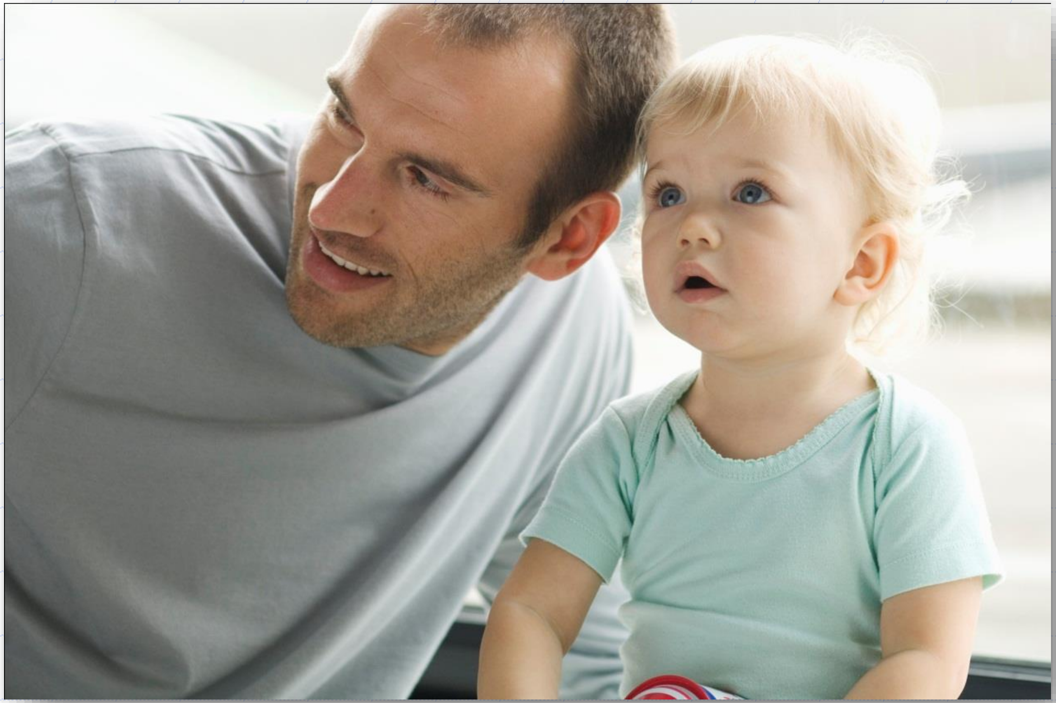
# The bottom line

## How can you prepare?



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# 529 college savings plans

## A 529 college savings plan can help you save

- Named for Section 529 of the Internal Revenue Code
- Sponsored by a state instrumentality
- Tax-advantaged method of saving for college, offering significant gifting and estate-planning options

**Please remember there's always the potential of losing money when you invest in securities.**

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# Benefits of a 529 plan

**With 529 plans, you can save for a child's education with:**

- No federal income tax on earnings when withdrawn for qualified higher education expenses
- Assets that can be removed from your taxable estate, yet you still retain control over them
- $70,000 gift-tax exclusion ($140,000 for married couples) over a five-year period of time*

Please note: Tax benefits are subject to certain limitations, and accrued earnings on withdrawals not used for qualified higher education expenses are subject to federal, state and local income taxes, and a 10% penalty tax.

*$70,000 gift-tax exclusion is new limit for 2013; donor must survive to the fifth calendar year after the contribution, or a prorated amount will be included in the donor's taxable estate.

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# Federal-tax-free earnings

**This chart demonstrates the value of the potential tax-exempt earnings in a 529 plan**

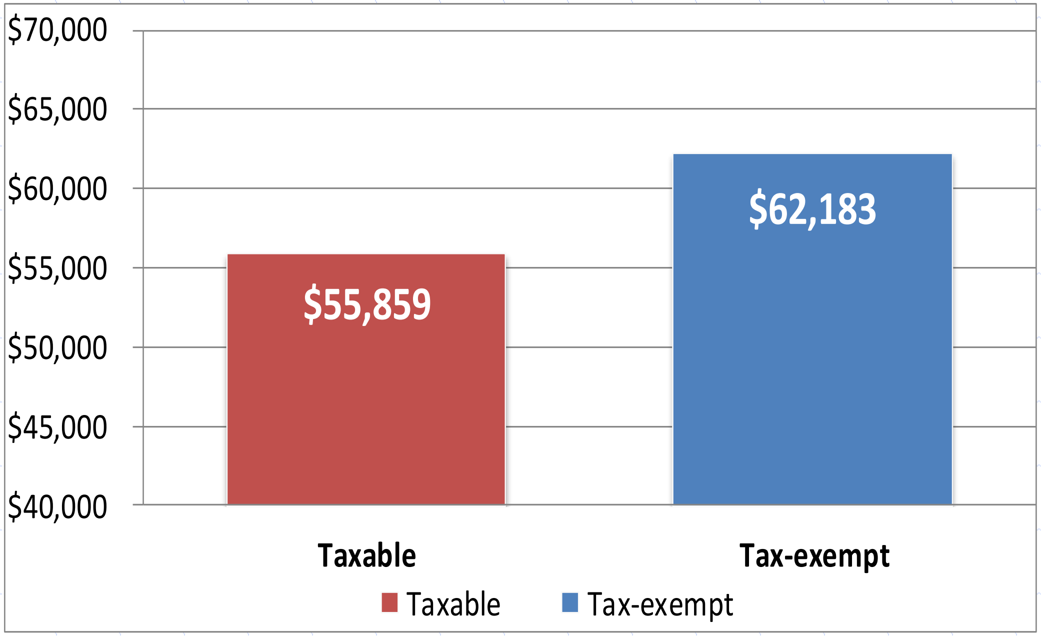


Chart does not include the effects of any expenses or state taxes that may apply.

Source: "Compare Taxable, Tax-Deferred and Tax-Free Investment Growth" calculator on helpmefinancial.com. CalcXML, a Division of DocuMatix, LLC. Assumptions: $5,000 initial investment with subsequent annual investments of $2,400 for a period of 15 years; annual rate of return on investment of 5% and no funds withdrawn during the time period specified; taxpayer is in the 25% federal tax bracket for all options at the time of contribution and withdrawal.

**Results will vary based on actual rates of return. This chart is for illustrative purposes only and is intended to help you understand the benefits of tax exemption. Tax benefits are subject to certain limitations and certain withdrawals are subject to federal, state and local taxes. If you or the beneficiary are a resident or taxpayer of another state, you should consider whether your state or the beneficiary's home state offers a 529 plan with tax or other benefits that are not available through this Program. You should consider, before investing, whether the investor's or designated beneficiary's home state offers any state tax or other benefits that are only available for investments in such state's qualified tuition program. You should consult your tax advisor.**

Withdrawal of earnings not used for qualified higher education expenses will be subject to federal and possibly state income tax and may be subject to an additional 10% penalty. The illustration does not reflect the deduction of any fees or charges, and is not indicative of the actual performance of any Columbia Management-distributed product, including any portfolio or combination of portfolios available through a 529 plan available through Columbia Management.

# Qualified withdrawals

## What is considered a "qualified withdrawal"?

Qualified withdrawals for expenses (when attending a post-secondary school that participates in a U.S. DOE student aid program) include:

- Tuition, fees, books and required supplies and equipment
- Room and board (half-time attendance required)
- Expenses for special needs services

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# Front-loaded gifting

## Special accelerated gifting rule with 529 plans

- Allows up to five times the annual gift-tax exclusion amount of $14,000 per beneficiary in a single year ($70,000 for an individual or $140,000 per married couple)
- To avoid gift tax, any gift in excess of the annual gift tax allowance must be treated as five separate, equal gifts over five calendar years
- Donor must survive to the fifth calendar year after the contribution or a prorated amount will be included in the donor's taxable estate

Contributions between $14,000 and $70,000 (starting in 2013) made in one year can be prorated over a five-year period without incurring gift taxes or reducing your federal unified estate and gift tax credit. If you contribute less than the $70,000 maximum, additional contributions can be made without incurring federal gift taxes, up to a prorated level of $14,000 per year. Gift taxation may result if a contribution exceeds the available annual gift tax exclusion amount remaining for a given beneficiary in the year of contribution. For contributions between $14,000 and $70,000 made in one year, if the account owner dies before the end of the five-year period, a prorated portion of the contribution may be included in his or her taxable estate. Columbia Management Investment Distributors, Inc. or its affiliates does not provide tax advice. Please consult your tax and/or legal advisor for such guidance.

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# Front-loaded gifting

## Accelerated gifting example

**Total $35,000**

| | |
|---|---|
| Gifting year | $7,000 |
| Gifting year +1 | $7,000 |
| Gifting year +2 | $7,000 |
| Gifting year +3 | $7,000 |
| Gifting year +4 | $7,000 |

# The best of both worlds

## Gifted assets are removed from the account owner's taxable estate, however:

- The account owner still retains control of the assets
- If needed, assets can be revoked through:
  - Change in beneficiary to a qualified "member of the family" of the current beneficiary
  - Nonqualified withdrawal, which is subject to taxes and penalties on any earnings distributed

Withdrawal of earnings not used for qualified higher education expenses will be subject to federal and possibly state and local income tax and may be subject to an additional 10% penalty.

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# Passing on a legacy

**Grandparents, relatives and family friends can also contribute to a 529 plan**

- College costs may be difficult to predict, resulting in a residual account balance
- Ability to change beneficiaries allows assets to be passed to the children or other qualified family member of the current beneficiary
- A successor account owner can be named, allowing control of the account to be transferred upon death of account owner

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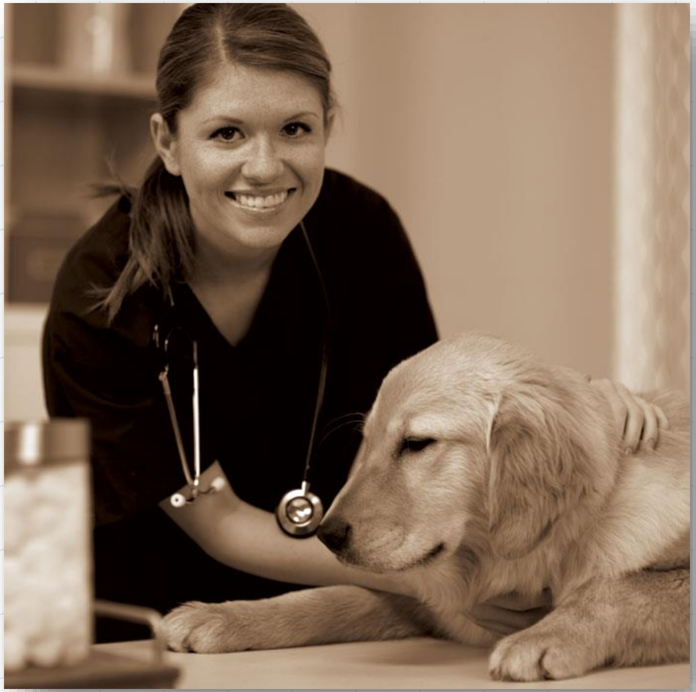
# Summary

## Look to a 529 plan for:

- Federal-tax-deferred growth of your college savings
- No federal income tax on qualified withdrawals
- Special gifting and estate planning benefits
- Passing on a legacy



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# Investment considerations

**Please consider the investment objectives, risks, charges and expenses associated with 529 plan investments before investing. Contact your financial advisor or visit columbiamanagement.com for a program brochure, which contains this and other important information about the plan. Read it carefully before investing. You should also consider, before investing, whether the investor's or designated beneficiary's home state offers any state tax or other benefits that are only available for investments in such state's qualified tuition program.**

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# QUESTIONS

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