Reduce My College Costs

College Savings Tip Sheet

July 2009

Is a Gift Really a Gift if You End Up Paying for it?

Think back for a moment to the January issue of the Tip Sheet. In that edition, we featured a section entitled "The Gift that Keeps on Taking" where we quoted a survey by the Hartford Financial Group that indicated that no less than 65% of the grandparents surveyed indicated that they planned to contribute towards their grandchild's education.

More than half of these grandparents indicated that they would contribute more than $10,000 dollars, with less than 1/3 indicating that these college savings efforts would be coordinated with their adult child.

If you're like me, those statistics give me the shivers as much now in the heat of summer as they did when we first reported on them in the dead of winter! Why? Because, unfortunately, many well-meaning grandparents will send checks for the benefit of their grandchildren directly to the respective institutions of higher learning with the blessings and even recommendations of their financial advisors.

So what's wrong with this strategy? In a word - EVERYTHING!

Money sent to colleges in this fashion may not only limit your child's receipt of institutional scholarships, grants, tuition discounts or preferential loan terms on a dollar-for-dollar basis, it will also reduce the intended gifts educational purchasing power.

The good news is that it's a mistake you don't have to make. Just be sure to review the video presentation entitled "Good Gifts Gone Bad" for points to discuss with your team of qualified advisors to ensure that you get the most out of your gifted educational dollars. You'll also learn the significance attached to the financial aid term "resource."

Stop Jumping Through Educational Tax Credit Hoops and Start Saving Money!

In a landslide victory, maximizing educational tax credits was tops when it came to most requested information by survey participants. And your timing could not have been better.

With the ongoing restructuring of the financial aid system, the federal government has approved a two-year supercharging of the Hope Credit.

One of the cornerstones of stretching your educational dollars with tax credits is making sure that the "obvious" cost reduction strategies are fully employed in your plan. But, when you are dealing with the government, too often realizing these full credits can be less than obvious with all the hoops you're required to jump through.

So, in this month's educational bulletin, we take a look at the *emerging* American Opportunity Tax Credit, available for your consumption in the 2009/2010 tax years. And in keeping with the need to jump through a hoop or two, we've incorporated results from the survey to use as said hoop.

The survey indicated that many of you anticipate your child receiving scholarships from outside sources. Depending on your unique circumstances and the amount of the scholarship, this can reduce or eliminate all together your participation in this tax credit. To help you avoid just such a situation, we give you an idea to discuss with your team of qualified advisors to determine how and if this suggestion may be applicable to your family.

WARNING: Keep in mind that although the New Hope has been approved and signed by President Obama, its review, ruling and interpretation has not been issued by the IRS. Therefore, as with all subjects discussed in the bulletins, it is provided as informational in nature only and, due to the numerous assumptions made, should be acted upon only after Publication 970 for the 2009 tax year is available and after complete consultation with your qualified advisor.

With this in mind, read this month's educational bulletin, *"The American Opportunity Tax Credit: The Future of*

continued on page 2

"Good Gifts Gone Bad"

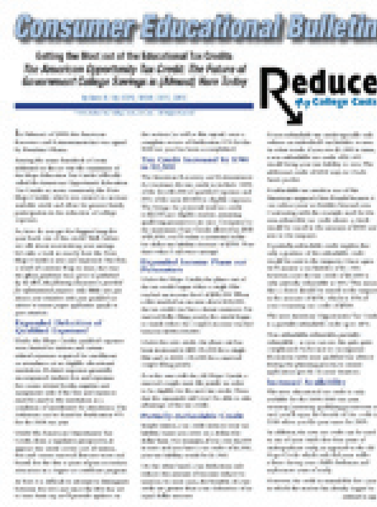
Watch the Video

Video Library

"Using the Roth IRA to Pay for College Costs"

FAFSA Basics

"Tip Sheet Educational Bulletin Library"


Consumer Educational Bulletin

Getting the Most out of the Educational Tax Credits

The American Opportunity Tax Credit: The Future of Government College Savings is (Almost) Here Today

Reduce My College Costs

"The Future of Government College Savings is (Almost) Here Today"

Government College Savings is (Almost) Here Today."

New from Reduce My College Costs: The Special Reports Section

Oftentimes, when we're putting together the Tip Sheet or the Educational Bulletins, Reduce My College Costs comes across a subject that requires commentary that's just too detailed for the Tip Sheet and would lengthen the respective Educational Bulletin to the point that many of you would start counting dollars saved before your head hit the pillow. And so the Special Reports section was born!

In addition to being your resource for expanded explanations of selected Tip Sheet or Educational Bulletin topics, the section will also contain previously published articles chock full of great money-saving tips.

This month's Special Report supplements this month's Educational Bulletin with information concerning the 1098-T. Please accept our invitation to the Special Report section by supplementing your understanding of this month's bulletin by reading, *"Please Mr. Postman, Look and See, Is There a 1098-T Form in Your Bag for Me?"*

Your Questions Answered

My husband and I are married but we filed separate tax returns for 2008. Our child will be a high school senior this fall and we will be applying for financial aid. Does our situation allow us to report the financials of only one person on the Financial Aid application? – Sue, CO

Hi, Sue. I'd love to give you some good news here but, unfortunately, the government prevents me from doing so. You will need to report financial information for both you and your husband.

While you've got this topic on your mind, it may be a good time to discuss with your qualified tax advisor the pros and cons of filing jointly. Assuming other qualifying parameters are met, filing jointly is currently the only way you will be able to participate in the New Hope Tax Credit.

We are considering sending our daughter to a Junior college here in California and having her complete her degree at a four-year college in order to reduce expenses. What are your thoughts? - Sandy, CA

One way to reduce college expenses is for your child to attend a two-year program after high school and then transfer to a four-year program. Junior and technical colleges cost significantly less than four-year colleges and universities, making them a good place to complete general education requirements, such as math and language courses.

Two-year programs also lower your financial risk. Let's face it; some students have a hard time adjusting to the demands of college. A two-year program provides space to mature, without costing you a

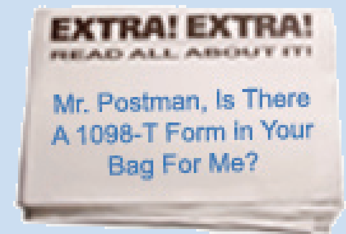
In the Library

"Using Your Retirement Plan Money to Pay for College"

"Today's Pressures Impact Tomorrow's Students"

"Three Most Dangerous Mistakes to Make with Your 529 Plan"

Special Reports



"Mr Postman, is There a 1098-T Form in Your Bag for Me?

In the Library

"College Financial Aid Base Year"

"Crazy Train of College Financial Aid- EFC"

"Credit Crunch Changes"

"How to Deal With Your College-Bound Child's Fears"

"

Who Said Time is on Your Side? Simple Tips for an Improved College Experience"

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fortune if your child struggles academically or even drops out.

But there are two potential problems with this plan. First, all of your child's credits may not transfer to the four-year program. If they don't, you'll end up paying for your child to take the classes again at the four-year school.

Also, be aware that some schools limit financial aid packages to transfer students. Before committing to a two-year program, check with your child's top choices of four-year schools to see what limits they place on credit transfers and financial aid packages.

Hope this helps!

How can I change from a losing account value to a safe one? – Anonymous

Since I don't know the type of vehicle (529 savings plan, UGMA, Education IRA, etc.) you're using to save for college, I will make the assumption that you currently have your money in a 529 savings plan.

Your first step would be to contact your investment advisor, the TPA (Third Party Administrator), custodian or the company that you purchased the savings plan through to discuss your concerns.

Make sure they explain, and that you understand, the restrictions associated with your ability to make exchanges within the various investment options in order to maintain the integrity (tax-free accumulation and withdrawals if used for adjusted eligible expenses) of the savings plan.

Once you have a complete understanding of the above issues, you should consider incorporating into your discussion with your investment advisor the pros and cons of maintaining the value of the plan versus a position of growth.

This should get the ball rolling in the desired direction.

Sorry to broad brush your question, but I am limited in my response due to the lack of knowledge concerning your situation and the vehicle(s) you are using to save for college.

Be sure to send in your questions for next month's Tip Sheet to: newsletter@reducemycollegecosts.com.

Quick Tips for Big College Savings

Divorced? Here's a Suggestion on How to Use Money from Taxable Investments.

When applying for financial aid via the FAFSA (Free Application for Federal Student Aid), the parent with whom the child lives with the most is responsible for reporting their financial information. Assuming that the non-reporting parent is the owner of the taxable (non-qualified assets, i.e., money market account, CD, stocks, etc.) accounts that will be used to pay for college expenses, how that money is distributed from these accounts to the university will play a major role in determining financial aid eligibility for the following school year.

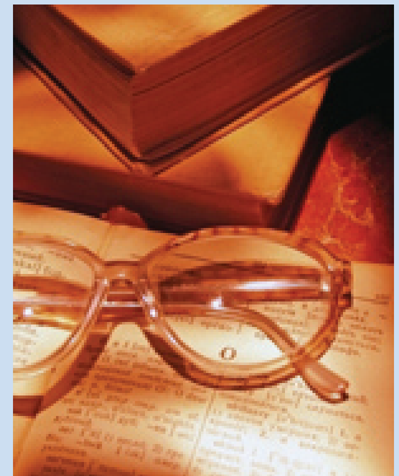
If the money is sent directly to the university from the non-reporting parent, the methodology used to calculate next year's financial aid eligibility will consider this a "resource" of the student and will reduce the student's "Need" on a dollar for dollar (that's 100%) basis, substantially limiting the students ability to participate in the financial aid system.

On the other hand, if the money is sent to the student who then writes a check to the university for expenses, the methodology may assess this at the student's income rate of 50%. Yes, you read that right. When the money changes hands from parent to student to university, you could lose half of the purchasing power (potentially more) of these dollars to the financial aid system. Ouch!

Therefore, if maintaining eligibility for financial aid is a major piece of your college planning puzzle, you might consider having the non-reporting parent take out a loan that incorporates a penalty free prepayment provision and then use the proceeds from the non-qualified accounts to pay off the loan.

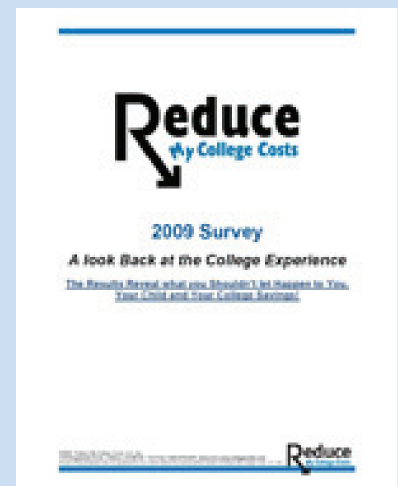
As always, consult with your trusted advisor prior to implementing the above idea as your personal situation *will* require consideration of other factors.

Your Glossary



2009 Survey: A Look Back at the College Experience

Don't Let This Happen To You!



Don't let the cost of college get the best of you, your family and your finances. Read this no-holds-barred survey from parents and students about their experiences with the college planning process. Learn from the mistakes made by people who have already traveled down this road!

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Taxable vs. 529 Savings Plan Money – Which Gives You More for Your College Money?

If a student's parents must report their income and assets, 529 savings plan amounts are assessed at the parental asset rate of 5.65% when determining financial aid eligibility. If the same money that was to be deposited into the 529 savings plan were instead deposited into a money market account, savings account or CD by the parents, it also would be assessed at the 5.65% rate, just as if it were held in the Qualified Tuition Plan (QTP).

However, unlike the 529 savings plan, money held inside a savings account or money market account typically won't be subject to the management fees associated with the savings plan. Such savings strategies also eliminate exposure to wide swings in market value that is inherent with certain investment opportunities within the 529 savings plan and will not be limited in scope of paying for only "qualified expenses," as defined by IRS Publication 970 when using QTP funds.

Additionally, the savings account or money market funds won't prevent the parent from receiving the full benefit – potentially $2,500 – of the New Hope Credit (American Opportunity Fund Tax Credit). Money improperly "unzipped" from 529 savings plans can eliminate eligibility for the tax credit and cause a taxable event, thus reducing potential financial aid.

Before I offend any 529 fans, let me say this: The above suggestion is not meant to discredit 529 savings plans. The use of these plans has many benefits and should be considered as a part of any balanced college investment portfolio. However, maintaining money outside of the "tax-free" wrapper also has benefits.

So be sure and consult with your trusted investment advisor as to the balance of the many savings vehicles at your disposal.

And consider making us a part of your college planning team. We'll make sure your plan encompasses the appropriate strategies you'll need to successfully "unzip" your college savings vehicles and provide additional solutions to ensure that you get the most out of your educational dollars so that your child receives the most out of the educational system.

Read Our Recent Articles and Quotes

From "Savingforcollege.com"
"6 Strategies for 529 Plan Withdrawals"
— Article by Amy E. Buttell

From "Education.com"
"3 Mistakes Guaranteed to Increase Your College Costs"

From "Healthywealthynwise.com"
"4 Easy Ways to Reduce College Costs and Supercharge Your Retirement"

From "The Seattle Times"
"10 Tips for Getting the Best College Financial-Aid Package"
— Article by Erin Peterson, featuring quotes by Marc Hill

July College Savings To Do List

- Watch the video workshop presentation, *"Good Gifts Gone Bad"* to make sure your get the most out of your gifted educational dollars.
- Download this month's Consumer Educational Bulletin, "*The American Opportunity Tax Credit: The future of Government College Savings is (Almost) Here Today.*"
- Read the Special Report, *"Please Mr. Postman, Look and See, Is There a 1098-T Form in Your Bag for Me*
- Send in your questions for the "Hey Marc" section in the August edition of the Tip Sheet to newsletter@reducemycollegecosts.com

Until next month, all the best to you and your family,

Marc

Marc R. Hill, CCPS, RFC®, CCFC, CAFC

Keep in mind that we do not know your individual circumstances; therefore, we provide the information contained in this tip sheet and all communication received from us as informative in nature only. We are not providing financial recommendations or advice of any kind. Please consult with your qualified team of advisors, including but not limited to, your Certified College Planning Specialists, CPA or tax advisor, trusted financial planner and your investment advisor for current application specific to your situation.

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