J. Walstedt  Okay. Thank you for that very comprehensive review of the subject of financing college education. I want to remind our listeners that after these calls, we do post an audio version and a transcript version on the Website, so if you’ve been madly trying to copy any of this down, you will be able to get it on the Wi$e Up Website after the call.

Now I’d like to turn to our coordinator, Diane, to open our lines for questions.

Coordinator  Thank you. One moment, please, for our first question today.

Your first question comes from Wendy Sanchez from Kansas City, Missouri. You may now ask your question.

W. Sanchez  My question is directed to Carrie. How do you set up, or who do you go to to set up the custodial IRA account that you spoke about?

C. Pomerantz  Any brokerage company has a custodial IRA. An adult has to open it up. It’s just like opening up a custodial account or an IRA;
you just need to go to your local brokerage firm – of course
Charles Schwab has them. You have to have a Social Security
[number] for your child as well.

W. Sanchez Is there an age limit on the custodial–

C. Pomerantz A custodial account is for children under 18 years old, and then
when they turn 18 or the age of majority in your state – it may be
21 – then you have to legally transfer it over to their name only,
and then they have access to handle it from there. But while
they’re under age 18, you’re the one who actually opens the
account and places the trades.

W. Sanchez Thank you.

J. Walstedt Do either of our other two speakers have a comment on that, or
shall we go on to the next question?

C. Pomerantz Ted, you might want to comment, I don’t know.

T. Sarenski We do manage folks’ assets, and we do custodial IRA's for a lot of
folks. We even recommend them, that if your children are, let’s
say, even babysitting, that they take some of their babysitting
money [and put it into a custodial IRA]. If you file a tax return and you show $400 or less [of earnings], there’s no self-employment tax, and that’s a way you could have some earned income to open up that IRA account for that child and start saving for their retirement at a very early age.

J. Pearl

The only thing I would add to that is that since the money will be in their name when they’re eligible for college remember that they actually don’t have to use it for college; and so you want to make sure that for your—all the more reason why you need to really teach your children to be financially responsible so that they don’t do that – they don’t use it to buy a car instead of going to college, or take a trip cross country.

The other thing I guess to remember is that there are consequences. When money is in your children’s name, they need to use more of that for college in that financial aid form that you have the parents fill out than money saved in the parents’ names. [Editor’s note: As Jayne explains in her book, *Kids and Money: Giving Them the Savvy to Succeed Financially*, “To find out what kind of financial aid your child may be eligible to receive, you first must fill out a form call the Free Application for Federal Student Aid (FAFSA)” (152). To obtain this form, visit www.fafsa.ed.gov or call 800-4-
Jayne also writes, “Federal financial aid formulas (which most colleges follow) require that 35 percent of the student’s assets be used for tuition, but only 5.65 percent of the parents’ assets…” (147).

J. Walstedt  Okay. Diane, do we have another question?

Coordinator  Yes. Your next question comes from Donna Waters, also of Kansas City, Missouri. You may go ahead, ma’am.

D. Waters  Yes, my question is for Ted, about the tax-deferred benefits for prepaid college tuition. Is that by state? And if so, what if they choose not to go to college or choose to go to an out-of-state university?

T. Sarenski  It is a state-by-state program, but there is reciprocity. So if they choose to go to another state – the same as the 529 plan – so if they choose to go to a state other than the state you’ve set that plan up in, it does move to those different states. So there is reciprocity between universities and between investment programs. [Editor’s note: For more information on prepaid tuition accounts, please visit the College Savings Plan Network, an affiliate of the National Association of State Treasurers, at www.collegesavings.org.]

FED-AID (800-433-3243).
Our next question comes from Rose Kemp, also from Kansas City, Missouri. Go ahead, Ms. Kemp.

I have kind of a follow-up question to the custodial IRA. When a child reaches the age of majority or 18, whichever is the age they need to reach, do they then have to follow the requirements of an IRA, or can they take all of their money, or do they have to keep the money in that IRA or there will be penalties?

Ted, do you want me to answer? Or do you want to go ahead, since you’re the accountant?

That custodial IRA is the same rules as anyone else’s IRA. If it’s taken out prior to age 59 ½, there would be the 10% penalty along with income taxation.

So if a parent needs that for a child’s education, then they could be penalized, because they haven't reached the 59 ½?

In a regular IRA, that is correct. What I would recommend, when we talk about custodial IRA, is that you look at a custodial Roth IRA. The Roth IRA will never be taxed – the earnings will never
be taxed – if taken out down the road in retirement, but the Roth IRA allows for distributions of the amount that you have put in – not the earnings, but the amount that you have put in – for something such as higher education. [Editor’s note: For more information, refer to IRS Publication 590, Individual Retirement Arrangements (IRAs) (http://www.irs.gov/pub/irs-pdf/p590.pdf).]

J. Walstedt Carrie, did you want to add anything?

C. Pomerantz Well, I don’t know if people are getting confused between the custodial account – I mean, there’s obviously different accounts for different reasons. When I said a custodial IRA, which I think is a great opportunity for kids to save for the long-term – and as I pointed out, that the earlier you start, the more money you’re going to have when you really, truly need it, and that’s if you’re [an] older age.

But certainly there – my kids have regular custodial accounts, so when they are the age of majority, that money will be theirs. Now I’m just overseeing it, I’m guiding them, advising them, but technically or legally they cannot have that account [until they’re the age of majority]. But that’s another way, again, for them to
build that saving muscle -- for your kid [to build that saving muscle.]

Then the college savings accounts that Ted was mentioning, those of course are specifically for college. So I don’t know; there are different accounts for different reasons. But what I was trying to convey was that the custodial Roth [IRA] or custodial IRA is a great tool again to get kids to think long-term and save for those later years. Now, I would also suggest that you have money that’s more available to them as well if you go into the IRA account.

J. Walstedt Are there particular Websites that would help sort out the different types of accounts you’ve been talking about, that you all think are particularly easy to understand?

C. Pomerantz Ted, you probably have some third-party places. But Schwab.com has pretty extensive, easy-to-understand information about the various college education accounts. Also, you can read about the different kinds of retirement accounts. I’m not sure that we will specifically go into a custodial IRA, although again, it works just like an IRA for an adult. It just allows for someone who’s younger than 18 to start saving for their retirement.
J. Walstedt  Jayne and Ted, do you have any to recommend?

T. Sarenski  On the college 529 plans, there’s a savingforcollege.com Website by Joe Hurley, who’s a fellow CPA here in New York, and he lays out a comparison of all the different states’ programs – the benefits, pros and cons and all. One thing I would want to also tell folks about those 529 plans is that each state may have – some do, some don’t – state-specific tax savings as well as what we talked about before. But that is a Website very good for 529 plans.

C. Pomerantz  Can I add, on the 529 plans, you can either go to – depending if the state offers it, you can open up an account with the state, or you can open up a 529 account at a brokerage firm. You can then utilize the money anywhere you want.

J. Walstedt  I would think that the Website of the state treasurers of each state might have information about the different college savings plans.

T. Sarenski  One other thing I’d like to mention: that any of the things we’ve talked about today apply to the parents as well. It’s not just the children that could utilize these things, but parents who would like to go to school themselves can utilize these programs.
J. Walstedt: Good point. Diane, do we have another question?

Coordinator: Yes. Mary Casey from Bellville, Illinois, you may ask your question.

M. Casey: Hello. I’ve run into some teens here recently that have credit cards, and I’m just wondering, what are some of the advantages and disadvantages of that and what’s the smartest way to proceed if that’s how the parents want to help the teens establish credit?

J. Walstedt: Carrie or Jayne – or Ted, for that matter – I’m sure you would have lots to say on that.

C. Pomerantz: Jayne, do you want to take it?

J. Pearl: I’m not quite sure what the question is about. Fees with credit cards?

M. Casey: Teens. Teenagers. I’ve come in contact with a few teenagers that have credit cards.

J. Pearl: Yes. I actually think that – and I’m probably in the minority here – that I think it’s probably a good idea in many situations to get your
child a credit card before they go away to college, and I’ll tell you why. Once they’re signing up for their courses in college, there will be these booths all around them with these credit card issuers giving away T-shirts and big bags of M&M’s and such if these students will sign up for credit cards. Now, they don’t need a parent’s signature. Parents don’t even need to know about it.

Often these credit cards -- because the children don’t have much of a credit history -- they have very high interest rates, and they sometimes come with fees. The maximum amount of spending allowed quite often inches up as they approach their spending limit, and these kids can get into tremendous debt. In fact, there are some colleges that have found that there are so many students that have thousands and thousands of dollars of credit card debt that they need to hire these special financial lawyers to help them bail out of this. There are kids who are actually declaring bankruptcy before they leave college, or at least graduating with tremendous amounts of credit hanging over them on top of their student loans.

So it’s a very good idea, I think, to teach your children early the discipline of using credit wisely. Credit cards can be a wonderful thing – you need a credit card to rent a car, to book an airline
flight, and for many other reasons; and it’s a great idea, if you can establish a positive credit history, to start that early. This way, the statements are coming home, the parents are helping their kids monitor and teaching them to spend only enough – what they can afford to pay off in a given month.

I don’t recommend this for kids who don’t have some sort of a regular income, but those that do, it’s a wonderful idea at around age 17 or even 16 if they can do that, by cosigning in some cases, to get their children to learn how to use credit very responsibly.

M. Casey Okay, thank you.

J. Walstedt Ted or Carrie, do you have –

C. Pomerantz I think Jayne hit all of the very important points. I think the whole point of this conference [call] really again is teaching our kids sound money management, and unless your kid has sound money management skills, I would be worried about having them have a credit card. But what Jayne says is the idea of having a credit card before they go to school is that you can supervise them and teach them to balance it at the end of the month, and make sure that they learn about paying it off on a monthly basis. So again, it’s about
teaching them under your supervision, so then when they do go out, again, they have those skills. So I agree with everything that Jayne has to say.

M. Casey Also, while they’re going through this coaching process, what’s a smart way to put in some safeguards?

J. Pearl You want to make sure that you sit down with your teen before you even sign up or as you’re signing up, and explain that these statements will come every month, list every purchase, and it’s important to save the receipts, to check that the expenses listed on their monthly statement are accurate, what to do if they lose their credit card or if it’s stolen, how to protect it, how to make sure that their identity isn’t ripped off, and to know how to use this [credit card] before they do, and to sit with them every month while they’re home and help them make the decisions and comment about their choices of what they’re spending.

C. Pomerantz The other thing is making sure they have a low balance, so that the bank won’t allow them to charge more than a certain amount.

J. Pearl Or no balance. I mean, ideally, they’re only spending what they can actually pay off every month. That’s the best way to use a
credit card. Never, ever, then, are you going to have debt accumulate. You think compounding is a great thing when you save, and it is, but imagine what it does to you when you’re charging. It’s killing you.

M. Casey Now, I’ve read somewhere where I guess the parent can go and actually deposit in a certain amount into the account, and then that’s all that the child has to spend?

J. Pearl That’s for the secured credit card or debit card.

M. Casey Okay. Thank you.

T. Sarenski One other comment I’d like to add – Jayne covered this very well – she mentioned about some of these college students going bankrupt. There is a new bankruptcy law taking effect in October of this year which is going to make it more difficult for these kids. So all this advice is very good – to make sure they don’t end up in that situation. [For more information on the new bankruptcy law, visit http://aol1.bankrate.com/aol/news/special/20050330a1.asp and http://www.nolo.com/resource.cfm/catID/462A9501-9B21-4E09-A08C5A7B8AF51A79/213/161/]
J. Pearl So are you saying, Ted, that this new law is not protecting them from getting into trouble, but if they do get into trouble, it gives them less – little room to get out of trouble?

T. Sarenski That’s correct.

J. Walstedt Diane, do we have another question?

Coordinator Your next question comes from Mark Tengowski from Ann Arbor, Michigan. You may ask your question, sir.

M. Tengowski Thank you very much. I’ve enjoyed the discussion so far, and I have a question on the custodial account and the Coverdell account and the Roth IRA account. Are those going to be, or can they be, $2,000 a year cumulative, or is it $2,000 in each one … the potential to save $6,000 a year?

J. Walstedt Ted, can you answer that?

T. Sarenski The limitations in terms of that, the Coverdell is considered like an IRA account. So if you’re looking at the custodial IRA's, those have a limitation per child per year, so you can’t – you would not be able to do the, let’s say, the Coverdell, a custodial IRA, [and] a
Roth IRA. You do have the limitation of the IRA rules. So you cannot do a number of these different programs all in the same year.

[Editor’s note: For 2005, Roth IRA contributions are limited to the lesser of $4,000 or a person's taxable compensation. If a person contributes to an IRA and a Roth, the Roth contribution is limited to $4,000 minus contributions made to the traditional IRA. In essence, the maximum contribution per year to a Roth and traditional IRA is $4,000. However, no more than $2,000 per year can be contributed to the traditional IRA.

In addition, up to $2,000 per year (per beneficiary) can be contributed to a Coverdell Education Savings Account (ESA). Several different people may establish a separate Coverdell ESA for the same beneficiary. If this is the case, the aggregate amount of contributions to the multiple accounts cannot exceed $2,000 per year. For more information, you can refer to IRS publications 590, Individual Retirement Arrangements (IRAs) (http://www.irs.gov/pub/irs-pdf/p590.pdf) and 970, Tax Benefits for Education (http://www.irs.gov/pub/irs-pdf/p970.pdf).]

M. Tengowski Very good. Thank you.
C. Dawkins: I think we have time for one more question. Is there another question, Diane?

Coordinator: Yes, there is. Molly Shelton, you may now ask your question, also from Ann Arbor, Michigan.

M. Shelton: My question is directly I think for Jayne and/or Carrie. I have one child who’s an 11-year-old boy who just entered middle school, and of course almost overnight now, he’s become very keenly aware of the labels of clothing that are popular, and so he wants to spend his limited savings on these very expensive clothes, and I’m trying to figure out what kind of conversation can I have with him to help him sort through that? Because it’s my – my goal would be to help him save for maybe the larger purchase, like someone’s example of their son who saved up for a guitar or something like that. Can you provide any examples of conversations we might be able to have?

J. Pearl: I can tackle that one, Carrie. I have something that I – I sort of coined the term called “the cost of cool.” That is the premium that we pay to buy something with a particular label. So if there’s a pair of sneakers with a swish, and that costs $125, and another pair
of sneakers that looks pretty similar but doesn’t have that swish on it, and that maybe is $50 or less, the cost of cool is the difference between those two costs. And it’s interesting to go through a kid’s closets, drawers and shelves and to calculate how much they have spent or you have spent on them, on that premium, just for the cost of cool. And I would bet that to a large degree, the greater that premium, the greater the cost of cool, the sooner that item either went out of style or that they got bored with it. And you can actually calculate how much they spent on that.

C. Pomerantz

I was going to say, there are different ways – I mean, I like to have that same discussion, even just what Jayne said about the cost of cool. But I also – again, you want to let them learn themselves. I have an example of—actually a client was telling me the story about how her daughter was spending so much money on clothes, and finally she just said, “Here’s your limit. You’re going to get this much money a month for clothes.” I don’t remember exactly what it was.

She said the first time she went out, she bought fancy clothes. Then when it was time to buy something that she really wanted, say a week later, she didn’t have the money. So again, that was a
learning [experience] right there – “Oh, wait a minute, I spent it all at one time.”

The next month – I guess it was a couple months that she was doing that. Finally, then, she went shopping with her mother. Her mother just sat there, let her buy all her fancy clothes. She went to the check register and they walked out, and her daughter was horrified again that she had spent so much money. She looked at her mother and said, “Why did you let me do this?” And of course she’s chuckling inside, but saying, “This is what you wanted; this is how you wanted to spend the money.”

She said that after those couple of months of experience, she started shopping at Ross stores, and buying a lot more for less, and also saving money. So again, it’s letting them make some mistakes along the way, with some of your guidance.

J. Pearl Well said, Carrie.

J. Walstedt Very good point. I’m sure there are probably other questions in the queue, but unfortunately we’ve run out of time, so I’m now going to turn the floor over to Gail Patterson to give us closing remarks. Gail?