Jane Walstedt: And now let me turn the program over to Pam Ayers, our program analyst in our Kansas City regional office, to introduce our second speaker.

Pam--

Pamela Ayers: Thank you, Jane.

I am pleased to introduce Kathleen Longo, a Principal with Accredited Investors, Incorporated.

Kathleen’s area of concentration is financial planning with a focus on effective management of personal net worth while incorporating taxes, insurance, and estate planning.

She has an extensive background in family services, including identification and implementation of strategies that integrate client wealth transfer goals. She also strives to discover and implement the philanthropic goals of clients.

Kathleen is a CERTIFIED FINANCIAL PLANNER™. She earned her Bachelor of Science in Financial Planning and Counseling from Purdue University. She has served on the Board of the National Financial Planning Association, which is the membership organization for the financial planning community.

Kathleen was named a “Future Star of the Financial Planning Profession” by Financial Advisor magazine. And she has been quoted in numerous local and national publications for her expertise.
Welcome, Kathleen.

Kathleen Longo: Thank you. It’s a pleasure to be here today.

I'm going to focus on planning for college education.

Education is really one of the most significant financial investments a family can make. So today, I'm going to share with you some tips on how to navigate the whole college education planning.

So this will apply if you have a child that is just a baby or is in high school, and it also could apply if you yourself are considering attending college.

What I'm hoping to accomplish today is looking at the rising cost of college education. In addition, I want to talk about ways to fund a college education, with the focus on savings, because that’s the key piece--as Michael just described--that’s the piece that you have control over is the savings and developing that discipline. And then putting college planning into your overall financial plan because your whole situation needs to work together.

So starting off and looking at the rising cost. I know we’ve all been reading the statistics, and they’re quite scary. It’s important to start early when we have that ability.

So a college grad--you know, why go to college?--a college grad earns on average over 60% more than a high school graduate. And this number came out last year [from] the US Census Bureau.
And then if you consider that over a lifetime, this gap in earning potential between [someone with] a high school diploma and [someone with] a BA are higher is more than $1 million. So it’s important to take education seriously.

Of course, there’s a price tag for a college education. And that price tag keeps on rising. It’s been rising faster than inflation. So historically speaking, what we’re seeing is fees going up between 6% and 12% a year.

If we think about average cost right now, so looking at the 2006-2007 year, what we have seen is for a private school, the average cost of tuition, not [including] room and board, was $22,000 [per school year] - a little over $22,000.

In contrast, for a public institution, the fee averaged about $5,800 [per school year] for in-state residents.

So this - it doesn’t include room and board or books, supplies, transportation to get back and forth to school, or even those miscellaneous living expenses like a pizza budget. So these costs do seem overwhelming. But don’t get discouraged, because today we’re going to talk about managing this cost and where that money is going to come from.

The typical [sources of college funding], when you look at it, come from scholarships, grants, work-study programs, loans, and then savings.

So, we’ll look at the first four briefly, and then we’ll focus on saving strategies, because that’s the piece you really do have more control over.

Scholarships. Scholarships are really typically awarded to students with exceptional abilities in academics, arts, athletics. But they’re also available to students with particular career interests or who are members of a certain
church or other organization. They’re great because they don’t have to be repaid.

The competition for them can be intense. But on the other hand, we read about scholarships that go unclaimed each year. So, the search is well worth the effort.

A couple of suggestions. When your child starts high school, plan on, [during] those freshman/sophomore years, speaking to the high school guidance counselor. Don’t wait until it’s too late-- in the junior, senior year. Start identifying potential scholarships early on.

And then also ask your employer and the organizations that you belong to what opportunities they might have. And maybe even your teen’s employer might have some scholarship for their part-time [workers] or some scholarship money [available].

And then there’s also, searching online, different Web sites that have free services.

Be careful to look at these search services because there’re many that do charge a fee. And you really need to be conscious that it’s a cost effective way, and you should look for the free services and do more of your leg work. You’ll be able to find different scholarship opportunities.

Grants, work-study, and loans. They’re really grouped under a broad term called “financial aid.”

Financial aid packages are offered by the colleges that you’ve…your student is accepted to attend. And the amount of financial aid [you are eligible to
receive] really depends upon your family’s ability to contribute [the Expected Family Contribution].

There is a form that is known as the FAFSA form, otherwise known as the Free Application for Federal Student Aid. And this is the form (http://www.fafsa.ed.gov/) that you need to fill out to apply for financial aid.

You would need to do this early. You can do this as early as January for the school year before your child is attending [college]. And you also have to keep in mind that each of the schools has its own deadlines.

When they talk about Expected Family Contribution, what they’re really looking at is the amount the family can be expected reasonably to contribute to the student’s college costs.

So in general, they look at--for parents--that they can contribute 5.64% of their assets and income. But students on the other hand are expected to contribute 35% of their assets and 50% of their income.

So there are several online calculators that you can use to give you a good idea of what that Expected Family Contribution might be.

So when you think about it, financial aid is really designed to make up the difference between what a family is expected to contribute and the cost of the school.

And even if you think your income is too high, you shouldn’t rule out applying for financial aid because often there’re many different types of programs, whether it’d be -- even in terms of a loan, that might be helpful for the family.
So, in thinking, the options [for financing college] are grants, which is money that doesn’t have to be repaid; work-study, which is just as it sounds the student has the opportunity to work and make money to pay for college; and then loans. And there’re various types of loans available through the government. In addition, there’re private loans too to consider.

Some parents will consider borrowing against their retirement funds. And we’ll talk about retirement next, but that’s one of the things that I want to caution about because retirement is an important priority. And you don’t want to risk your own financial security during the retirement years to put everything into college planning. So it really requires a careful evaluation of what’s best for your family.

Bottom line, loans are both [a] good news and [a] bad news situation. They are facts of life for many college students today. But they can be really thought of as good debt because student loans buy really a life-long valuable asset in the college education.

And then our final strategy-- which is our focus--is really that savings piece. What do you have control over, and what are the different ways that you can spend, save for college?

When you’re thinking about what … some of the questions you should ask yourself are--you know, what is the cost of the college that you or your child have in mind, how much time do you have to invest and save, what kind of returns can you realistically expect to earn on the money, and what portion are you expecting to pay--you may say that your child has to pay a portion of that cost. And then having conversations with your student or spouse and making sure that you’re in agreement. You know maybe the student has to pick up more loans than you had hoped for, maybe consider a less expensive school and maybe working during school.
So there’s many different ways to pay for it. And sometimes students that work the hardest for it appreciate and take advantage of it the most.

And when we think about some of the different ways to save, there’s…it really comes down to that discipline that Michael referenced that, you know, making a pay…making your savings one of the ways you pay yourself first, thinking about when you have the ability to reallocate your funds—for example, you pay off a credit card and you’ve got this extra cash flow, allocating that into [your] education [fund].

Or this is, you know, a popular thing that we talk about with our clients is in setting up a college plan, so when the grandparents or relatives give your child money, have it go to their college fund instead [of letting your child spend it]. Your kids may not appreciate the value of this now, but they’ll thank you later on.

And then, even when unexpected money comes your way--maybe it’s a bonus you didn’t expect, a tax refund--think about putting a portion of that towards the college fund.

You’ll hear a lot of different jargon out there about different financial [vehicles for saving for educational expenses]--529 plans, Coverdell education accounts--and it can get confusing on where to save. So when you think about just…I’ll cover some of the more common vehicles today.

I mean there’s always taxable investments that you can invest the money [in]. You can hold it in your own name. It can be in anything from money markets to bonds, stock funds, real estate and so on. There’s always that option. You control it. You can keep it in your own name. It offers you a lot of flexibility.
But there’s also a lot more conversation these days about different savings vehicles that have some tax advantages, such as the Coverdell Education Savings Account, where you can contribute up to $2,000 a year. And earnings are exempt from federal income taxes, as long as the money is used for qualified education expenses. And today, this includes elementary and high school costs, as well as college costs. So, that’s a nice vehicle.

And all of these different vehicles have different income limitations and different pros and cons. So let’s just highlight some of the main features of these.

529 Plans. There’s two different plans. There is a 529 College Savings Plan and a 529 Prepaid Tuition Plan.

The prepaid tuition plan is just that. You’re really buying…you’re buying education, you’re paying for it in today’s dollars, and you’re not going to worry about what the cost is in the future because you’re really locking in the value if you buy it today. But it does come with some limitations on that. If you’re locking into certain schools, what if your child doesn’t want to go to those schools, what if they don’t get into those schools? You need to really understand what happens to that money if your child doesn’t use that.

So that’s the prepaid savings plan.

The more common one that we’re hearing about more is the 529 College Savings Plan, which allows you to save money tax-deferred, and withdrawals are [may be] completely tax free if used for qualifying college expenses. [IRS Publication 970 (2006), Tax Benefits for Education (http://www.irs.gov/publications/p970/ch08.html), provides information on the tax benefits of qualified tuition plans (QTP), which are also known as 529 plans. You cannot deduct from your taxes either payments or contributions to
a QTP; however, no tax is due on a distribution [withdrawal] from a QTP unless the amount distributed [withdrawn] is greater than the beneficiary’s [the person whose education the money is being used for] adjusted qualified education expenses. Adjusted qualified education expenses are the total qualified education expenses reduced by any tax-free educational assistance.]

It’s not limited to a particular college. And the way you invest in this plan is you go through the state. And all states have 529 Plans, and you can invest in any of them. You can look at your own state plan, which oftentimes may have some tax advantages [as a result of your] being a resident of that state. But it’s really the individual states that administer these plans. And they have many different investment options, from low to higher risk. So, it’s important to do your research when you’re selecting the right plan for yourself.

The person who owns…who opens the account--the owner--is the one who maintains control of it. So you can open an account for the benefit of your child, but you still maintain control of it.

So, let’s say your first child ends up not going to school. You may transfer some of those funds to your second child. You have the ability to move it amongst the family members.

And let’s say your child doesn’t go to school or you have money left in this plan, and you decide to go to school, you can use it even for yourself. There’s a lot of flexibility. But you need to do some careful research and read the fine print because there are fees charged by these plans, and they vary from state to state.

That’s…so hopefully you have a sense of those many different types of options for saving. There’s different ways to fund savings [for education] and
there’s many different vehicles. The important piece is if you can start early, it’s going to pay off in the end.

Thank you for your time today.

Jane Walstedt: Thank you very much, Kathy. And those were some eye-opening figures about the cost of college and some very helpful information.