Jane Walstedt: And now, let me turn me the program over to Jacqueline Cooke, the Women’s Bureau Regional Administrator for its Boston and New York regions, to introduce our third speaker.

Jacqueline Cooke: Thank you, Jane. It is my pleasure to introduce David Frisch, a Certified Public Accountant, Personal Financial Specialist and Certified Financial Planner.

He is the President and Director of Personal Financial Planning Services at Frisch Financial Group, a comprehensive investment management and financial planning firm based in New York City and in Melville, New York.

Mr. Frisch holds a Bachelor’s Degree in Accounting and received his education from the State University of New York at Binghamton and the College for Financial Planning.

He has conducted financial planning seminars and income tax planning courses, and is an adjunct lecturer at New York University School of Continuing Education.

As the mother of a junior in high school, I look forward to continuing to get some helpful suggestions from our next distinguished speaker--Mr. David Andrew Frisch.
Thank you, Jacqueline. I was going to say that I didn’t think those last couple of sentences were in my bio.

I wanted to expand on what Pam and Maureen said, and I know we’re probably running a little bit over time.

But Pam was great in terms of the big picture, and Maureen really discussed the nuances of the 529 plan.

Some of the things that I want to go through are some of the strategies and planning that can be done in terms of both financing for or paying for college, taking into account some of the tax savings that the IRS has created; discussing some of the saving vehicles [such as the Coverdell Accounts and the 529 plans]; discussing some of the estate tax savings in terms of getting grandparents involved; discussing how assets can affect the needs-based programs in terms of student loans; again, briefly hitting on some of the investment strategies; touching on student loan repayments; and then some of the takeaway points.

And the one thing about the…this discussion is that there is a tremendous amount of material. So what I have been asked to cover in 10 minutes probably would take a week in order to go through comprehensively. So the point that I'd like to try to just hit on is trying to mention that there are some issues and then certainly provide, you know, the help in terms of going and looking for additional information through some resources.

Let’s start on the income tax saving strategies, where [some] of the things that have been previously mentioned are scholarships and grants. And the great thing about scholarships and grants obviously is they don’t have to be repaid. And as long as they’re being used for qualified education and tuition purposes, and in addition to a couple of other things, they are fantastic in that
obviously they’re not loans and they’re one-time or multi-time payments and they can be used directly to finance education.

There are other things available, and the IRS has created a couple of things over the last couple of years, one of which are **credits** and one of which are **deductions**.

Something called the Hope Credit is effectively a [has an annual limit of] $1650 [credit] per student. This one is different in that it’s only available for the first year/second year of undergrad, so this is not available for all four years of undergrad, and it’s also not available for graduate school.

The interesting thing about the Hope Credit--and this was something that the IRS had put in--it is not available if there are felony drug convictions of the student. And this Hope Credit is income-based, so depending on the adjusted gross income of the family, they may or may not be eligible.

The second type of credit is the Lifetime Learning Credit, which is $2000 per family. This is available both for undergrad and graduate, and again, is income-based.

When I talk about a credit, a credit effectively means a dollar for dollar reduction in tax liability. So just to give an example, if somebody owed $10,000 in taxes and they qualified for one of these credits--let’s just assume that they'd have a $2000 Lifetime Learning Credit--then their liability would only be $8000. So there really is a fairly substantial savings if in fact you are entitled to the benefit.

There's also student loan interest deductions, so once you graduate and start paying back the loans, the interest can be deductible. Again, this can be based on anything from books or supplies or equipment to room and board. And
again…and one of the Web sites that I'm going to give you later is the www.irs.gov [Web site], which will basically tell you exactly what these limitations are. But this can provide a $2500 deduction against other taxable income.

There is something else called the tuition and fees deduction, which is another deduction that can provide up to [has an annual limit of] $4000.

The one thing I just want to make sure that you understand is the difference between a deduction and a credit. If someone is in let’s say the 30% tax bracket and they have a $1000 deduction, that saves them $300 in taxes. So obviously a $1000 tax credit is much more valuable than a $1000 tax deduction. Something to keep in mind.

I'd like to move on to some of the tax strategies and also saving vehicles that are available, and Maureen went in depth on the 529 plan, so I'm going to try to save a little bit of time [and] not discuss that as much. Certainly, it is the most commonly used vehicle, and it really deserves the most amount of time.

The other savings plan which is available is the Coverdell [Education Saving Account]. The Coverdell is a much smaller allowable contribution. It’s only [a] $2000 per year [limit per beneficiary]. And the interesting thing about the Coverdell which is not available in the 529 plan is that qualified expenses are actually available from kindergarten to 12th grade in addition to undergrad and graduate school. Again, with a $2000 contribution, you can't amass as much money as you can in a 529 plan.

One of the other things that are available is IRA planning. And if you are under the age of 59 1/2 and you make a withdrawal from your IRA, there is a 10% tax penalty. And one of the things that IRS has enabled, if a parent has to take money out of their IRA in terms of financing their child's education,
there is no 10% [tax penalty]. So although…and again, we're going to get into this a little bit later--whether or not you want to be drawing that from your retirement plan, the IRS has said if you're financing your child’s education, you are not subject to this 10% penalty.

Another savings vehicle is the educational savings bond, and these are the EE bonds issued after 1989 or the new I bonds. And basically what they’re saying is that the interest which ordinarily would be taxable on the federal side would not be taxable if the proceeds will be used for tuition and other education expenses.

Another is - and this is what is really not very well known about--is the Employer-Provided Educational Assistance. And basically what that says is that there are some employers out there--ranging from the mom and pop shops to the larger companies--where they can pay up to $5250 towards college for the individual [and those benefits are not taxed].

Now, the individual has to be over the age of 21, and there are stipulations. But effectively what happens is the employer can pay, let’s say this $5250, it does not count as income to the student, and it is a [tax] deduction for the corporation or the business.

So this is potentially very, very valuable either for the parents of students who may be small business owners or grandparents of students to take advantage of this. Larger corporations can offer this too. So this is a well- known… this is not a well known benefit that can be potentially taken advantage of.

What I’d like to slowly move on to is kiddie tax planning. One of the things that has just happened is the IRS raised the kiddie tax age from 14 to 18. And effectively what that means is if a student has unearned income - unearned meaning interest, dividends, or capital gains in excess of $1700-- then
whatever amount is in excess of that would be taxed at the parents’ highest marginal tax bracket.

So in many instances, it can be very advantageous to transfer money from a parent to a student in terms of saving on taxes. One thing you want to be very careful about is simply [that] once money is moved from the parent to the child that the child can have access to these funds when they hit the age of majority. So thus parents obviously want to be able to control this to the best of their ability.

When you talk about getting the family involved--and this was previously mentioned before--one of the things that is somewhat interesting to me is that according to the Journal of Financial Planning in September 2006, 55% of grandparents contribute financially to their grandchildren’s college education. Fifteen percent of grandparents contribute $5000 or more per year.

As an estate tax planning tool, if a grandparent sends his money directly to the college, it does not count towards what is now a $12,000 annual gift [limit without gift tax consequences]. So if someone is paying for education -- health expenses are in there as well -- they can pay for any doctors or what not and that doesn’t count towards the gift [tax limit]. It ultimately can be some very interesting estate planning in terms of reducing the size of the grandparent’s estate and still being able to gift assets to the grandchild or any other family member.

One of the disadvantages of gifting is when you start to talk about the need-based planning, which effectively, if assets are either in the student’s name or the parent’s name or, to some extent, the grandparent’s name, having money potentially can reduce the overall amount of aid that can be received. So as great a savings tool as the 529 is or gifting or the savings bonds or interest,
like that, ultimately it can decrease the amount of aid [a student qualifies for] when need-based aid is received.

I can tell you that obviously the one thing that people are probably thinking about right now is if you can save, there is absolutely no reason not to continue saving as much as you possibly can, because obviously need-based assistance is limited. So ultimately, if you can’t get all of the need-based assistance you need, you certainly want to have enough assets to try to fall back on. So although the [family’s] assets do decrease the amount of aid available, ultimately, there is still aid that can be received.

Moving on - and I think Pam and Maureen had both hit on this--is if you're talking about investments--and we have clients all the time that are asking us what should their students’ or their children’s investments be in.

And like Pam said, it really depends on the [life] stages. And if you’ve got a newborn child, you can be invested 100% in equities because of a 15- or 18-year time horizon.

If the child is a junior in high school and is now taking the SATs and looking at certain colleges and whatnot, this is a time where the assets want to be much more conservative. And I can tell you even in the last couple of days in the stock market, where on Thursday and Friday of this week, the market was absolutely hammered, and it was one of the most difficult weeks in years, you need to take a look at things in the big picture.

And over the 18-year period what the market can do far outweighs anything that the market can do over a couple of daysperiod. The goal is that you want to be properly asset allocated, where a certain amount of money should be in equities--especially for the younger child--and more money will be allocated
towards bonds for the older student. You never want to jeopardize financing a child’s education based on the volatility of the stock market.

Now that we've effectively graduated from college, now let’s start talking about some of the techniques in terms of paying back money. One of the things which--it sounds almost silly--but if you pay regularly and on time and there are a number of programs where if you make consecutive on-time payments, they will knock percentage points off of the interest rate.

In addition, if you even have a direct link between your checkbook and the loan institution where it electronically goes let’s say on the first day of every month, that will also decrease the overall interest rate of the loan. Obviously, based on what we talked about before, you want to try to take into account the variety of tax breaks, ranging from the investment interest and whatnot, certainly taking your income into account.

There are other things that I’ll kind of hit on in terms of consolidating your loans to make it a little easier. There are some loans that I think should be consolidated and there are some loans--for example the Perkins loan--which probably should not be consolidated.

The Perkins loan is a 5% fixed interest rate loan. It doesn’t really make sense to consolidate those for a number of different reasons. If you’ve got other types of loans, and just to give you an example to explain what consolidating your loan means, if you have one loan that’s a $10,000 loan at 6% [interest] and then you have another $10,000 loan at 8%, when you consolidate the loans effectively what you have is a $20,000 loan at 7%. It is not a substantial savings at all by consolidating the loan. It simply just makes paying a little bit easier.
The other thing that you need to keep in mind—and this is especially true for either graduating people or people that are looking for work and they don’t have it—one of the things that you really need to be aware of is communicating with the loan institution, because one of the things that you can get is potentially a deferment, which basically gives you the ability of stopping paying for the loan [for a while]. Interest will continue to accrue [accumulate], but you're not defaulting. [Note: You don’t have to pay interest on the loan during deferment if you have a subsidized FFEL or Direct Stafford Loan or a Federal Perkins Loan. If you have an unsubsidized FFEL or Direct Stafford Loan, you’re responsible for the interest during deferment. The most common loan deferment conditions are enrollment in school at least half-time, inability to find full-time employment (for up to three years) and economic hardship (for up to three years).]

There is something else called forbearance, which again is ultimately stopping payment, typically for less than a year. And as long as the institution knows what's going on, then although the interest will continue to accrue, you can avoid defaulting on the loan and ultimately getting a nasty strike on your credit record or credit score.

So to conclude, two other very important points that I think you really need to keep in mind. You can certainly finance your child’s education, but you can't finance your retirement. So the question that every parent has to say is, “How much of the educational expenses can one finance, and what is the cost in terms of either retiring [being able to retire] or delaying retiring?”

And the final point is that families—and one of the things that I very much appreciate Pam and Maureen saying—is families have a lot of homework to do well before their child ever gets to college. They need to look at either the loans that are available—and there was literally something that in one of the
Stafford loans that a husband applied for a loan and was rejected, and the wife then applied for the loan and was accepted.

So what Pam said in terms of really continuing as aggressively as you can in terms of applying, it does sound silly, but ultimately it can work. And ironically enough, when the husband was rejected, the wife’s loan was accepted.

So when you look at all of these things, ultimately there are some tax strategies that can be used. There are some investment strategies and vehicles that can be used. And when you look at this in [terms of] the overall picture it can potentially save families thousands and thousands of dollars.

Thank you.

Jane Walstedt: Thank you very much, David.

I think you never mentioned some resources available online. Did you want to do that?

David Frisch: You want to know something, yes, and most of them have already been discussed. We’re…

Jane Walstedt: You mentioned *Money Magazine College Guide*…

David Frisch: Yes, the…


David Frisch: One of the things-- and actually this just came out. I think yesterday I received my *Money* magazine. But in this month’s—August—edition, the
529 plans, taking a look at state by state plans. The other Web site which I think is absolutely helpful for trying to figure out what's going on in terms of the tax strategies and benefits is www.irs.gov or G, O, V. Specifically, you want to take a look at Publication 970, which the entire publication is designated for tax benefits for education.

So when you go through these things, they will provide some of the assistance to hopefully answer some questions.

Jane Walstedt: Thank you, David. That really rounded out the speakers very nicely.