

Planning a Mid-Career Return to College? Don't Forget to Ask What Uncle Sam Can Do for You

Going back to school in your 30s, 40s and 50s has its own set of challenges. For instance, it's going to be a lot tougher to pull the all-nighters you did when you were 18. It will also be an eye-opener to encounter tuition prices that have increased at twice the rate of inflation over the last 20 years.

According to the College Board, the average current yearly in-state costs at public universities are \$13,589 and \$32,307 for a private college.

Planning a mid-career return to college should make you feel like an 18-year-old for one important reason: You can and should compete for the same tax credits, grants and scholarships that the kids do, and don't miss the breaks available to the older set.

If you're pursuing undergraduate or vocational study: Consider the federal Hope tax credit, which allows a tax credit for the first two years of post-secondary education. For tax year 2008, the maximum Hope Credit has been increased from \$1,650 to \$1,800. Who's eligible? An eligible taxpayer is enrolled in one or more courses at an eligible college or university, must file a federal tax return and owe taxes to claim the Hope credit – that means you can be eligible for the tax credit if you are a student or if your spouse or child is a student. The Hope tax is a nonrefundable credit.

If you're pursuing graduate school or upgrading your skills: Check out the Lifetime Learning Credit, which applies to undergraduate, graduate and professional degree courses, including instruction to acquire or improve job skills. The amount is per family, not per student, and translates to a maximum credit of \$2,000 – not much, but it's better than nothing. The credit is equal to the first 20 percent of \$10,000 spent out-of-pocket on qualified tuition and related expenses. The credit may be claimed by the parent or the student, but not by both. Nor can the Lifetime Learning Credit be combined with the Hope Credit. For single individuals, the credit starts to phase out when their modified adjusted gross income reaches \$48,000 for 2008 (up \$1,000 from 2007) and is completely phased out when the adjusted gross income is \$58,000 for 2008 (up \$1,000 from 2007). Married couples who file jointly start to lose the credit when their modified adjusted gross income reaches \$96,000 for 2008 (up \$2,000 from 2007) and completely lose the credit when their adjusted gross income reaches \$116,000 in 2008 (up \$2,000 from 2007). Like the Hope Credit, the Lifetime Learning Credit is a nonrefundable credit.

Tuition and fees deduction: The IRS allows deductions of up to \$4,000 on tuition and fees (even when you borrow to pay them) as long as you do not file your tax return as "married filing separately" or if your modified adjusted gross income is more than \$80,000 if single or \$160,000 if you're filing a joint return. But there's bad news, too. If you took a Hope or Lifetime Learning Credit for yourself, you won't qualify for this deduction.

Interest on student loans: In 2008, you will be able to deduct up to \$2,500 of interest on student loans. Taxpayers with a modified adjusted gross income over \$70,000 for individual filers or \$140,000 for joint filers don't qualify for the deduction. There is no deduction if you file

as married filing separately, if you are claimed as a dependent, or if the loan is from a related party or a qualified employer plan.

Know which scholarships and grants are tax-free: You generally need to be a degree candidate – not someone who's taking a course or two to brush up on your skills.

Beyond federal tax breaks, make sure you investigate:

- Whether the particular coursework you're planning will give you the best possible return in terms of pay or new career choices.
- Any tax breaks on the state level.
- Whether investing funds in a 529 college savings plan makes sense for you.
- Any scholarship or education subsidies offered by your employer.
- Any scholarships or grants offered by industry or trade groups.

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Buying Your Family's Health Care Coverage? Begin with Some Smart Steps

These days, it really doesn't matter whether you're buying health care coverage through an employer or independently. In the world of health insurance, everyone is going to have to start acting like a cost-cutting entrepreneur. If you've ever heard of "catastrophic" healthcare policies with deductibles in the thousands of dollars, you're looking at the future model of everyone's health care coverage. As health care costs increase, employers have to find ways to limit their exposure to rising costs, so individuals will be carrying more of the burden.

According to a March report by benefits consultant Watson Wyatt, nearly half (47 percent) of the 453 large U.S. employers currently offer a consumer-directed health plan (CDHP), a high-deductible plan offered with a personal account that can be used to pay a portion of medical expenses not covered under the plan. In the world of independently purchased health insurance by businesspeople, it's the same concept as the pairing of a high deductible health plan (HDHP) with a health savings account (HSA).

Also, don't be surprised if your employer is going to get tougher about you losing weight, quitting smoking or taking part in a monitored exercise plan.

How do you get ready for this brave new world? Here are some ideas:

Take the initiative on changing your health care behavior: Lowering the number on your bathroom scale will have immediate health benefits, it will also make your health insurance options and potential out-of-pocket costs more affordable over time. A Stanford University and Rand Corporation study reported that lifetime medical costs related to diabetes, heart disease, high cholesterol, hypertension and stroke among the obese are \$10,000 higher than among the non-obese. It added that lifetime medical costs could be reduced by \$2,200 to \$5,300 following a 10 percent reduction in body weight.

Know what you're buying: Whether you buy health insurance through an agent or your employer, insist that they explain exactly what you're getting for your premium, and where deductibles do and don't apply. That way, you'll have a baseline when you buy your own coverage. If you're purchasing your own insurance policy, compare the premium savings from a higher deductible plan with your usage pattern of health services. What you save can often cover your high deductible.

Always discuss the potential cost of a diagnosis: If your physician diagnoses a condition that requires tests, prescription drugs, a hospital stay or ongoing therapy, ask polite but detailed questions about what you'll be charged, from the doctor's bills to ongoing ancillary costs associated with treatment. Ask the doctor or his office manager to possibly negotiate a discounted fee for service. It's possible to get discounts through cash payments as well. Also consider asking for generic options and samples of prescription drugs to extend your savings.

Check local pricing resources: In non-emergency situations, you should always compare prices on treatments. Check with local medical boards and state health officials to see if they have online databases on costs for various medical procedures. Also, if there is a support group for your condition, talk to members about what they paid locally for care.

Talk to a financial adviser about planning for long-term care: If you or a loved one are diagnosed with a chronic illness, that's a financial issue that requires a plan. As tough as it may be to focus on money issues at a stressful time, make an appointment with a tax professional or a financial planner to discuss affordability options that will safeguard your assets, including Medical Spending Accounts that can backstop out-of-pocket costs on high-deductible policies.

Take advantage of your company's flexible spending account: A flexible spending account (FSA) is a separate, tax-advantaged account where you deposit funds to pay for medical expenses not paid by your insurance. You need to check what your particular company's FSA allows you to stockpile funds for, and you will need to estimate carefully because you'll have to spend out these funds by a particular annual date or lose the remainder. It's also good to discuss how you're allocating those expenses with a financial planner.

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Affording Your Pet's Catastrophic Illness

Americans spend an almost unbelievable \$40 billion a year on their pets, according to the American Pet Products Manufacturers Association. An increasing amount of that total is in veterinary expenditures.

We'll talk about pet insurance in a minute, but if you have a pet – or are thinking about one – it makes sense to plan for how you would finance a major illness.

The veterinary industry is mirroring the advances in human health care – new drugs, new treatments and new opportunities for dogs, cats, birds, horses and even fish. But is pet health insurance really worth the money, which can be as high as \$500 or more a year for an older pet with a top-of-the-line policy that includes cancer coverage?

Coverage is tempting because it's not unusual for annual expenses for a pet's cancer treatment to exceed \$3,000. Be aware that most policies pay to a maximum "per incident," so for a chronic problem once you have received the maximum for that diagnosis, you are on your own for payment no matter how many years or treatments you schedule. In major metro areas, vet bills can average \$100-\$250 just for the basics, which include annual vaccinations and checkups.

But is it wise to actually buy insurance? If you feel that a major illness or accident for your pet would wipe you out financially, it might be worth considering. However, if that's the case, you should only consider paying for a catastrophic or accident policy if an insurer offers it – that is, a policy that covers major illnesses or an accident only.

That would keep premiums relatively low and you would pay out of pocket for annual checkups, vaccinations and routine care. You could also save money by buying your pet's prescriptions through reputable online and mail-order pet pharmaceutical suppliers. You should also ask your veterinarian if he or she might prescribe certain human over-the-counter medications to deal with certain conditions since the veterinary versions would be identical and potentially more expensive.

Reputable pet insurers underwrite their coverage as traditional insurers do, but even at this date, the market leaders in the industry are not rated for financial strength by A.M. Best or other major insurance rating agencies that cover human concerns due to insufficient data.

What are some things you can do to control your veterinary care costs? It might start with your pet selection. You should research particular breeds of animals before you buy or adopt to see if there are any particular conditions associated with the breed.

Also, when you adopt, see if the adoption agency has a provision for health care reimbursement whether your particular breed of pet falls ill with certain specified conditions within a specific period of time.

Of course, there are other options. One might be creating your own pet emergency fund in an interest-bearing account with deposits of at least \$400-\$500 a year. By the time a pet is 10 years old, you'll have a healthy cushion of at least \$4,000 to \$5,000 to cover any serious treatments necessary. Putting sudden pet expenses on a credit card could risk your credit rating if you can't pay them off right away.

If your current pet doesn't liquidate your reserve account by the time he goes to his reward, keep the fund intact for your next pet. Then you'll never have to think twice about paying for sensible treatments.

Also think about:

- Asking your veterinarian if he or she negotiates payment plans and what interest costs might be;
- Contact your local shelter to see if there are subsidized veterinary clinics in your community;
- If you have a specific breed in mind, contact the national club for that breed and see if they might have knowledge of specific health conditions faced by that breed as well as a veterinary assistance fund;
- Ask your vet to submit an assistance request to the American Animal Hospital Association's AAHA Helping Pets Fund (www.aahanet.org).

One of the best things any pet owner can do is be vigilant about annual checkups and proper vaccinations – that way, you can catch problems early. But of course, there is a non-financial aspect to any decision making necessary to a pet's care: if treatments only extend a pet's suffering, then it's time to rethink.

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