



# Educate Yourself: Understanding the Costs of a College Education

## Saving For College

In order for anyone to compete in today's job market and receive earnings that will cover the cost of living these days, a college degree can't be ignored. But its expensive and it's going higher! Though we don't know for sure the cost in 5 years or more, a 5 to 8% increase year over year is the historical trend. While a public school may cost an average of \$17,000 in 2007, that same college may cost \$28,000 in ten years. And a private school may go from \$35,000 to \$57,000. So, what is a family to do?

**Start Early!** It's important to start that education fund as soon as possible. However, consider your savings as a 'down payment': don't worry about having 100%, work towards 50%. The more you save earlier makes a big difference 10 to 20 years

down the road. And beware of sacrificing your retirement fund to an education fund for children.

**Know Your Options!** When researching your options for where to place your savings, consider tax-advantaged strategies first. 529 plans are popular, and allow for tax-deferred growth and federal tax-free earnings if used for qualified college expenses. Check with your tax and financial professional for state tax advantages for 529 plans.

Another tax-advantaged option is the Coverdell education saving account that lets you contribute up to \$2000 per year for each beneficiary. These vehicles also allow for tax-deferred growth and federal tax-free earnings if the money is used for qualified elementary, secondary or college expenses. (There are income restrictions on who can participate).

UTMA/UGMA custodial accounts are also available, where the child holds the investment in their name with you as the custodian. Earnings and capital gains are taxable to the child each year, the child gains control at age 18 or 21, and the gift (account) is irrevocable.

U.S. Savings Bonds, Series EE and Series I bonds, are another option. The interest earned is exempt from federal income tax if the bond proceeds are used for qualifying college expenses. However, to qualify for the tax-free interest, you must meet income limits and other criteria.

Call your advisor for assistance in getting started, or for more information.

## What About Financial Aid?

With the high cost of college today, financial aid may be what your child or grandchild needs to attend. Here are the basics so you can better understand how the process works, what forms will need to be completed, and the most common aid programs.



First, understand that financial aid comes in the form of student loans, grants, scholarships and work-study employment. There are two categories: need-based (dependent on financial need) and merit-based (dependent on academic, artistic, musical or athletic merit). Once you have completed the Free Application for Federal Student Aid (FAFSA), the federal government income and assets are totaled and then assessed at certain rates. After allowing for certain exclusions (retirement plans, home equity, etc.), you are given an Expected Family Contribution (EFC) that you must contribute to college costs in order to be eligible for aid.

Unfortunately, there usually remains a deficit, known as getting "gapped", which means that you will need to make up the shortfall between the EFC, the aid amount and any other scholarships your child has won, and the cost of tuition.

The FAFSA can be completed manually, or online and filed electronically at [www.fafsa.ed.gov](http://www.fafsa.ed.gov). Your current income is the most important factor in determining need. Other considerations are total assets, how many other family members are in college and how close you are to retirement. The earlier you can complete the FAFSA the better, so as soon as you have your tax information from the previous year, get the form completed. Once you receive the award notice, make sure and compare between each of the preferred schools. The most common aid programs are: Stafford Loan (most common low-interest federal loan), Perkins Loan (low-interest loan for those with the most need), PLUS Loan (for parents), and Pell and SEOG Grants (for undergraduate students with exceptional financial need).

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## How Grandma & Grandpa can help

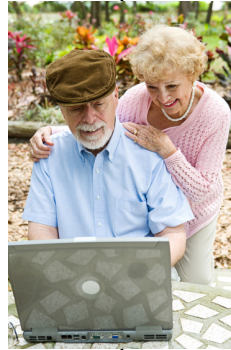
*Baby Boomers are becoming grandparents, and are stepping in to help educate the next generation.*

There is a feeling of great personal satisfaction that comes from helping family members pay for an education, and it can also be a smart way to pass on wealth without having to pay gift and estate taxes.

Grandparents can make outright gifts of cash or securities of up to \$12,000 individual, \$24,000 jointly, on an annual basis (2008 figures) to their student grandkids. However, the grandchild may just spend it!

Another option is contributing to a 529 plan and naming the grandchild the beneficiary. There are special rules for lump-sum gifts to 529 plans, allowing a gift of \$60,000 for an individual, \$120,000 for

joint gifts by married couples, with a special election to avoid federal gift tax. Or, they can contribute to an existing account through regular installments of gifts.



Another good feature of the grandparent-owned 529 account comes when completing the FAFSA forms. These accounts are excluded, so they won't impact the grandchild's chances of qualifying for aid.

Grandparents may also want to consider paying the college directly. Under federal law, tuition payments made directly to a college aren't considered taxable gifts, no matter how large the payment. However, this may reduce the student's financial aid by the amount of the payment.

*Please consult your tax advisor.*

## Tax Credit vs. Tax Deduction

	Worth up to...	Modified adjusted gross income (MAGI) limits	Qualified education expenses include
<b>Hope Credit</b>	\$1,800	Joint - \$96,000 or less (partial credit if between \$96,000 and \$116,000) Single - \$48,000 or less (partial credit if between \$48,000 and \$58,000)	Tuition and fees only
<b>Lifetime Learning Credit</b>	\$2,000	Same limits as Hope Credit	Tuition and fees only
<b>Student Loan Interest Deduction</b>	\$2,500	Joint - \$115,000 or less (partial deduction if between \$115,000 and \$145,000) Single - \$55,000 or less (partial deduction if between \$130,000 and \$160,000)	Tuition, fees, room and board, books, equipment, and other necessary expenses
<b>Deduction for qualified higher education expenses</b>	\$4,000 (\$2,000 partial)  *Deduction available for 2007 tax year only.	Joint - \$130,000 or less (\$2000 deduction if between \$130,000 and \$160,000) Single - \$65,000 or less (\$2000 deduction if between \$65,000 and \$80,000)	Tuition and fees only

For more information on any of these federal tax benefits, see IRS Publication 970.