Investing in the Future of Your Children: Their Education

Facilitators Manual

Introduction

If you're the proud parent of a newborn or young child, congratulations! We are sure that you want a bright future for your baby; but you've probably heard the depressing estimate of the cost of a college education when your child is ready to enter college 18 years from now. The cost of four years in a public college is expected to be in excess of $100,000; a private school, over $200,000. Shocked? But this is reality. How can you plan for this? This module will help you define a plan.

The important thing is to start NOW! Do not procrastinate your decision!
¡No lo deje para mañana!

The sooner you start investing for your child's education, the better. As with any other investment goal, time is your best friend.

Module Objectives

After completing this module you should be able to:

- Recognize the cost of higher education.
- Understand why is important to start saving and investing early.
- Understand the available options to cover the costs of your children's education.
- Recognize the federal tax incentive programs to cover your children's education.

Recommended Time on Task by Lesson

Lesson No.	Lesson Title	Time Required
	Introduction and Ice Breaker	20 minutes
M3.1	Planning for your Children Education	40 minutes
M3.2	Federal Tax Incentive Programs	40 minutes
M3.3	U.S. Saving Bonds	40 minutes
M3.4	Income Tax Incentives	40minutes

Suggested Module Instructional Duration: 3.0 hours

About This Manual

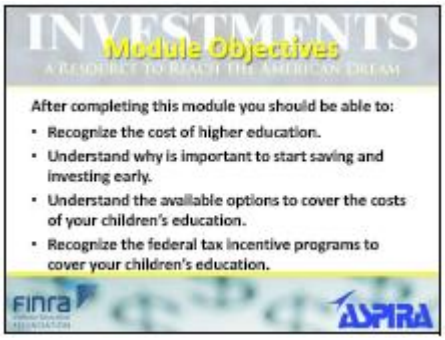
This manual contains the same information provided in the instructional manual that the participants will have during the workshop. For each section we provide specific suggestions and resources selected to help you deliver the classroom instruction. These include teaching tips, questions to generate classroom discussion, and a module PowerPoint presentation. In addition every section or subject has additional reference materials which provide supplementary online instructional materials and resources. These were selected to provide the facilitator more information about the subject or materials which could be used to enhance the delivery of instruction.

Before the workshop session:

- Before conducting the workshop, take time to familiarize yourself with the participant manual, exercises, additional learning resources, teaching tips and questions to generate discussion and PowerPoint presentation.
- For classroom use it is highly recommended to secure a flip chart, color markers, projector, and laptop. Familiarize with setting up the equipment and with its operation.

At the workshop:

- Welcome the participants Ask participants to introduce themselves, and share what their expectations are for this program, and what they hope to get out of the seminar. Write these down on a flip chart as they share. (This activity will help participants get to know each other and feel more comfortable and give you an idea of what they are expecting from the session.)
- Review the objectives of the session and the agenda. If applicable, hand out materials to participants. Using the module PowerPoint presentation review the module objectives:



- Use this time to listen as well as to manage expectations as to what will be accomplished during the lesson. Let participants know that their specific personal situations may not be able to be addressed directly in the lesson but that the information should be valuable to them.
- Make sure to schedule breaks after 1.5 hours of instruction.
- Encourage participants to ask questions; try to create an interactive-participatory learning environment. If you do not have the answer to a question, be honest and say: "*I don't know the answer but I will research it for you".* Bring the answer next day and explain where and how you found the answer.
- Do not ask personal questions to participants which could potentially disclose personal or confidential financial information. It is strongly recommended to always use hypothetical scenarios.
- Always use a flip chart to write down key concepts, at the end of the day review the key learning concepts.

Table of Contents

Key Terms

529 Plan: A 529 plan is a savings plan in the United States designed to give tax advantages to encourage saving for future higher education expenses. It is named after section 529 of the Internal Revenue Code. 529 plans are run by state boards or the organizations they delegate the administration of the plan.

Bureau of Public Debt: Their job is to borrow the money needed to operate the Federal Government and to account for the resulting debt. In a nutshell, they borrow by selling Treasury bills, notes, and bonds, as well as U.S. Savings Bonds; they pay interest to investors; and, when the time comes to pay back the loans, they redeem investors' securities.

Circular: A publication.

College Board: The College Board is a nonprofit examination board in the USA, comprised of over 4,500 institutions of higher learning. It is known principally for managing standardized tests such as the SAT, PSAT, CLEP and the subject-specific SAT Subject Tests and Advanced Placement tests. The SAT, the most well known of these, is a test widely used for admission to universities in the United States, which over 3 million prospective college students take yearly.

Coverdell Education Savings Accounts: is an account created as an incentive to help parents and students save for education expenses.

Deduction: An expense that can be subtracted from an individual's adjusted gross income to obtain their taxable income. The type of expense deductions allowed is determined by the Internal Revenue Service (IRS). Examples include state and local taxes, charitable contributions and mortgage interest paid.

Estate Tax: A tax imposed at one's death on the transfer of most types of property. Executor (or Personal Representative) is the person named in a will to manage the estate. This person will collect the property, pay any debt and distribute your property or assets according to the will.

Face Value: The principal amount, or value at maturity, of a debt obligation. Also known as the par value or denomination.

FAFSA: The FAFSA is the federal application that a student must complete to receive federal, state, or institutional aid. This form has to be completed each academic year by the student, in order to be eligible to receive financial aid. FFELP (Federal Family Education Loan Program) are federally funded educational loan programs, including Federal Subsidized and Unsubsidized Stafford Loans, and Federal Parent Loans for Undergraduate Students (PLUS).

Federal Reserve Bank: One of the 12 operating arms of the Federal Reserve System, located throughout the nation, that together with their 25 branches carry out various system functions, including operating a nationwide payment system, distributing the nation's currency and coin, supervising and regulating member banks and bank holding companies, and serving as banker for the U.S. Treasury.

Financial Aid: The money awarded to a student based on financial need. Colleges award need-based financial aid in a financial aid “package” that may contain loans, grants, and work-study money. Financial aid also may mean any money awarded to a student, including merit-based scholarships.

Hope Scholarship Credit: A nonrefundable credit of up to $1,500 per qualified student for tuition and fees paid for the first two years of postsecondary education.

IRA: Individual Retirement Accounts are retirement savings plans that allow individuals to contribute toward an account on a tax-deferred basis. The contributions and earnings are taxable as income only when withdrawn or paid out after retirement.

Interest Rate: The percentage of an amount of money that's paid for its use over a specified time period.

Investment Vehicles: Investment options that offer different levels of fees, service, and minimums. Brokerage firms offer a range of investment vehicles such as mutual funds, closed-end funds, variable annuities and separate accounts.

Lifetime Learning Credit: A nonrefundable credit equal to 20 percent of the first $5,000 of qualified higher education tuition

and fees paid during the year on behalf of the taxpayer, his or her spouse, or his or her dependents.

Qualified Expenses: For education tax-credit purposes, qualified expenses are amounts you pay for tuition and fees required for enrollment or attendance at an eligible educational institution for you, your spouse, or a dependent you claim on your tax return. Qualified expenses do not include amounts paid for room and board, insurance, transportation, books, or equipment.

Rollover: If you move your assets from one tax-deferred or tax-free investment to another, it's called a rollover.

Roth IRA: A Roth IRA is a special type of IRA under which distributions may be tax exempt. Individuals may make nondeductible contributions into a Roth IRA if certain income requirements are met. Qualified distributions from a Roth IRA are tax-free.

Series EE Savings Bonds: U.S. Savings Bonds developed to help people finance their child's education. They're federally tax exempt.

Student Loan: Student loans are loans offered to students to assist in payment of the costs of professional education. These loans usually charge lower interest than other loans, and are also usually issued by the government.

Tax Credit: Tax credits reduce taxes payable to the same extent for all taxpayers, regardless of their income level and marginal tax rate. Deductions from taxable income, however, are more valuable as your income and tax rate increases.

Trust: Ancient legal practice where one person (the grantor) transfers the legal title to an asset, called the principle or corpus, to another person (the trustee), with specific instructions about how the corpus is to be managed and disposed.

Tuition: Amount of money charged to students for instructional services. At some institutions, tuition may be charged on a per term, per course, or per-credit basis.

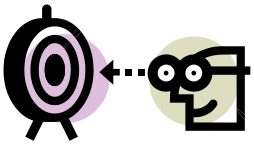
Uniform Gifts to Minors Act: An Act that governs the transfer and gifting of property to a minor as well as a custodian's responsibilities and duties concerning management of the property until the minor reaches the age of

"majority." Applicable state law defines the age of majority for a minor.

U.S. Savings Bonds: Bonds issued by the U.S. government that offer investors the advantage of not having to pay state and local taxes on the interest earned from the bonds. In addition, investors do not have to pay federal taxes on the increase in value of series E or EE U.S. Savings Bonds until the bonds are redeemed.

What to do first? Have a Plan

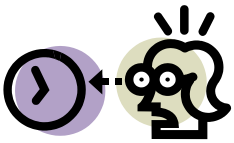
Lesson No. M3.1



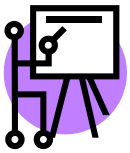
Lesson Objectives:

After completing this lesson participants should be able to:

- Recognize the importance of planning for financing the education of their children
- Understand the importance of starting to invest early to reach the desired goal
- Recognize options to afford their children's education



Time Required: 40 Minutes

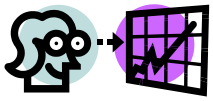


Lesson Teaching Tips

- Prior to the lesson, research the cost of room, board, and tuition of local colleges and universities.
- Use the estimated educational annual cost of one of the local universities, multiply by 18 (years) at an inflation rate of 5% / year, and then multiply by 4 (years) to determine the projected cost 18 years from now for a four-year program.

Questions to Generate Discussion

- Do you know how much will it cost to have your children in a four-year college 18 years from now?
- How can you pay for it?
- Do you have a plan?



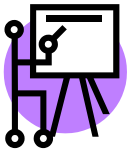
PowerPoint Slides Thumbnails

Slide Notes

- Using the information of room, board, and tuition costs of a local or nearby college or university, estimate the cost of education 18 years from now.

- These figures represent the 2008 cost of a private university.
- To project the cost 18 years from now, multiply $122,000 x 0.05 x 18.

- Pay as you go – your child might need to consider a job-and-study program.
- Pay later: get a loan.
- Scholarships
- Save now – bonds, IRA's, etc.



Closure:

- Review lesson objectives with participants.
- Reaffirm the notion that the costs associated with their children education are high and they need to plan how to cover for this investment.

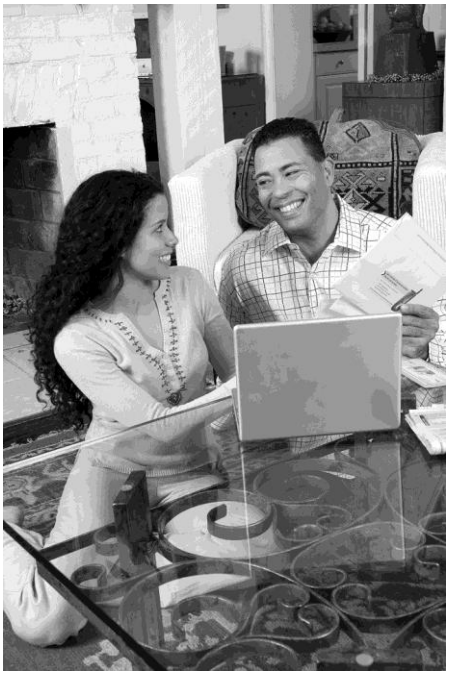
Learning Assessment:

- Ask participants if they can develop a financial projection regarding the projected cost of tuition of their children.

Reference Materials

- College Cost Calculator – The College Board, http://apps.collegeboard.com/fincalc/college_cost.jsp

The first step in making a plan is to estimate what the total cost of your child's education is likely to be. On this module we will provide specific information on this issue, here is a glimpse. The average in-state tuition for a public school now averages over $10,000 per year. At five percent inflation per year, the estimated



cost per year 18 years from now would be around $24,000 (10 years from now the cost would be approximately $16,000). Private schools can be two to three times as much.

Don’t panic! Don't let these numbers scare you into inaction. Some of your child's education can be paid for through scholarships, financial aid, and student loans. It's possible to save the rest if you start early, contribute regularly, and invest wisely.

The only thing worse than not saving at all is putting your money in a passbook savings or money market account. In order to amass enough money to finance four years of college, you need to not only start early, but invest aggressively. Stock funds historically have almost always exceeded other investments over periods of ten years or more. Look for no-load (no fee to purchase or sell) mutual funds with low expenses. Refer to Money Magazine's semiannual mutual fund listing that includes information on expenses and performance for thousands of funds.

Don't just park your money in a fund or two and leave it. Review the performance of the funds at least annually, and make adjustments as necessary for under-performing funds. When your child is five years from starting college, begin to shift your money into growth and income stock funds and bond funds, reducing your exposure to market ups and downs while still aiming for high returns.

Two to four years before your child is due to start college, cash in enough stocks and bonds to pay for the first year, and put it somewhere safe and accessible, like a money market fund. If you wait until just before you need the money, you may be forced to take it out at a time when market performance is down, thus losing some of your earnings.

How to Save for Your Children's Education?

Imagine your daughter coming to you with an acceptance letter from "the" college. The one she's been dreaming of all through high school. The college that perfectly matches her career aspirations. Perhaps even your own alma mater.

Only one thing could make you prouder – knowing that you have done your homework, too. That no matter where your child is accepted or what financial aid is offered, you have the resources to afford the college of choice.

Numerous surveys and studies have been published describing how parents prepare for future college costs. You probably don't need a survey to tell you what you already know:

- Kids grow too fast
- College is expensive
- The time to start saving and planning is now.

Your child's college tuition could be one of the largest expenditures you ever make. And, if you have more than one child, the financial commitment is even greater. The financial challenge you face is shared by millions of others.

Fortunately, American families with a desire to save for future college expenses now have more options than ever before. Traditional investment options—savings accounts, taxable investment accounts, annuities, and U.S. Savings Bonds—are now joined by powerful new investment vehicles including Section 529 college savings programs and Coverdell Education Savings Accounts.

New investment programs bring new opportunities, but they may make decisions more difficult for people who want the best education possible for the children in their lives.

With these pages, we hope to help you gain a basic understanding of your options so that you can maximize the return on every dollar you set aside for a child's future. Our focus is on the relatively new and increasingly popular "529 plan," but we also explain other commonly used savings and investment vehicles.

Remember, even if your goal seems overwhelming now, the proper planning and saving can put the cost of any college within your reach.

How much should I save for my children's education?

It's easier to save for postsecondary education if you understand the costs involved. Here's a summary of some of the costs you can expect:

1. Tuition

This number can be difficult to pinpoint. Depending on the school or program, tuition can cost between $2,272 and $22,218 a year. Some reasons why tuition may vary:

- **Community college or a four-year university program**. Community colleges programs often are less expensive than tuition at four-year colleges.
- **Private or public college?** Private colleges are more expensive.
- **Program choice.** Some programs cost more than others so investigate costs upfront.
- **Co-op.** Co-op programs usually cost about $1,000 more than full-time programs and co-op programs can extend the period of study. However, the benefits of co-op programs, which include being paid during the co-op session and gaining valuable work experience, may outweigh the higher costs.
- **Class type.** Lecture format, lab time and teaching assistants often affect tuition fees.
- **Other factors.** Factors such as the school's location (downtown vs. rural schools), the type of institution, and the years of schooling required are additional factors that influence costs.

2. Residence and meal plan

Depending on the school, residence fees can be upward of $6,000 (including a meal plan). Some factors that contribute to these costs include:

- **Room.** Room-type, such as single, double, triple, or apartment style, can have a big influence on costs. First-year students, however, usually share a double room thus reducing costs.
- **Meal plan.** Meal plans typically provide cafeteria meals, plus the flexibility to buy food at other food venues on campus. Meal plans generally work on a declining balance method, usually in a system that works a lot like a

debit card. Some plans are more flexible than others, but when all is said and done, eating habits will determine the real cost of food.

3. Books

The cost of books can influence the overall amount that should be saved for postsecondary education. The choices for buying books include:

- **School bookstore.** Buying new books each semester can be an expensive choice, though students benefit from the most recent editions.
- **Second-hand books.** With the right amount of time and patience, finding used books can be a much less expensive alternative. Visit used bookstores or look for signs and pamphlets around campus advertising used books.
- **Borrow books.** If a student knows someone who has taken the same course, simply ask to borrow the book.
- **Buy books online.** New and used books can be available online. Shipping may take longer, but perhaps a group of students can negotiate a discount if they buy books in bulk.

4. Student fees

Some schools include fees in tuition costs to fund certain events, services and clubs. However, some fees may be refunded if a student chooses not to join certain groups.

According to the *College Board's Annual Survey of Colleges, 2006-2007*, the average national college costs for the 2006-2007 academic year are:

	Total Cost	Annual % of Increase**	Tuition/Fees	Room/Board	Other Costs
2-Yr Public	$3,122*	4.10%	$2,272		$850
4-Yr Public	$16,357	6.30%	$5,836	$6,960	$3,561
4-Yr Private	$33,301	5.90%	$22,218	$8,149	$2,934

According to the College Board's Annual Survey of Colleges, 2006-2007, the average national college costs for the 2006-2007 academic year are:
**Assumes resident students. Other includes expenses such as Books, Supplies, Transportation, etc.*
*** % Increase compares costs of Tuition/Fees and Room/Board to previous year.*

Options on How to Afford Your Child's Education

Most people look at the price of a college degree as an expense, like the electric or cable bill. But what if you looked at it as an investment? According to the U.S. Census Bureau, in the year 2004, the average male college graduate, aged 25-34, earned 69% more than the average male who completed only high school or had a General Education Development (GED) certificate. Among women the same age, college graduates earned 73% more than nongraduates.

Over a lifetime, the additional earnings resulting from this "investment" in education could easily exceed $1 million.

Still, the question remains: How will you finance that investment?

Pay as You Go
Your child could help pay for college by getting a job, but students must already juggle studies and other college activities. Even a part-time job might detract from their primary focus – getting an education.

You can also plan to pay college expenses out of your future income as long as you realize that doing so might require substantial cutbacks in other areas of your family budget.

Pay Later
Some might suggest that you approach college tuition as you would buying a home – borrow the money to pay for college and simply repay the debt with higher earnings after graduation. Though many parents see advantages in having children contribute to their education expenses, a college education can be as costly as buying a home. How many parents want their children to start out with such substantial debt?

Find Someone to Help Pay
Scholarships and grants are the ideal financial aid. They don't have to be paid back. But according to the College Board, less than 44% of all financial aid comes from scholarships and grants, while over 50% are loans. (The rest is federal work-study and the value of education tax benefits.)*

Save Now for More Freedom and More Choice Later
Saving now is the best way to ensure that you have options later. After all, you would like your child to select a college that offers the best education and not necessarily the best financial aid.

You probably also want the comfort of knowing that you won't be dependent on outside sources like loans or scholarships to meet college expenses.

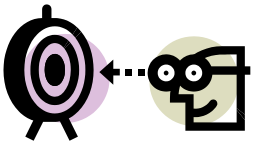
Many strategies and investment vehicles are available to help you maximize your college savings. Selecting a suitable strategy and the best combination of investment vehicles is critical. For each option, you face the task of evaluating key characteristics including:

- The potential for growth
- Risk of loss
- Tax implications
- Ownership and control
- Ease of management
- Fees and expenses

The decisions you make now can have a significant impact on how much money is available for tuition payments in the future. In this tutorial, we focus on the most common components of a sound college savings plan – a plan that can give you and your future college student a high degree of financial security and the confidence that you can afford the college of choice.

Federal Tax Incentive Programs to Cover your Child Educational Costs

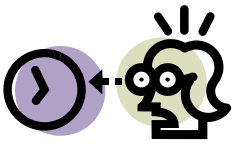
Lesson No. M3.2



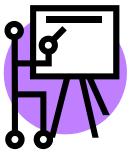
Lesson Objectives:

After completing this lesson participants should be able to:

- Recognize the option of federal tax incentive programs (529 and Coverdell) to cover for educational costs
- Understand the difference between college savings plans and prepaid tuition plans



Time Required: 40 Minutes

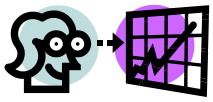


Lesson Teaching Tips

- Keep in mind that participants might have considered multiple financial goals: retirement, children educational costs, etc.; if they have limited financial resources, they will need to prioritize.
- Make participants aware of the implications of having a 529 or a college tuition plan on their children financial aid eligibility.

Questions to Generate Discussion

- Have you consider a 529 plan to cover part of your children educational cost?
- Do you know the federal tax incentive associated with college savings programs?



PowerPoint Slides Thumbnails

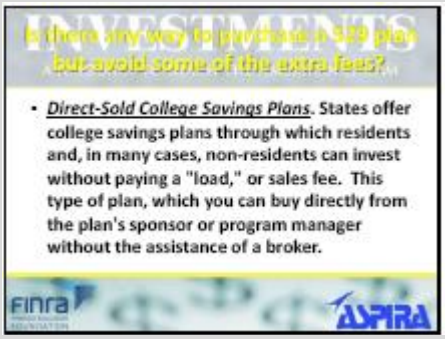
Slide Notes

- There are several different tax incentive programs. List some of these for the particiapnts as options to cover for part of their children's education.

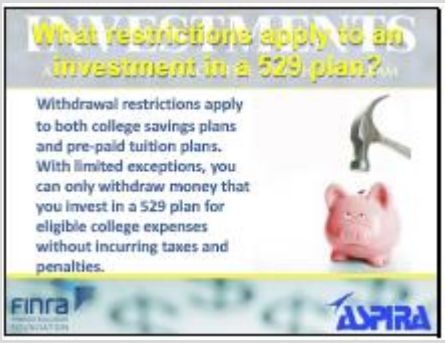
		• Make participants aware of the differences between the two savings options and their implications.
		• Ask participants to think about financial priorities. • Can they afford to invest to meet all goals? If so, a what level?
		• These are some of the questions to be made to the investment professional when discussing the possibility of investing on a 529 plan.
		• Make participants aware of the tax implications of not using the 529 earnings for noneducational purposes.

- Strongly recommend participants to carefully review the fees associated with each investment option.

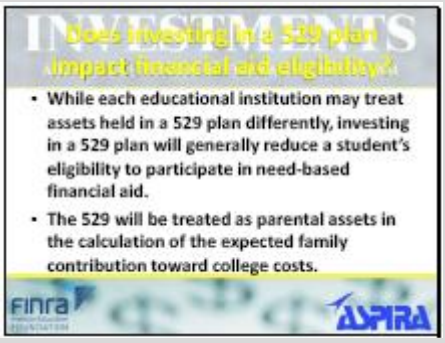
- Make participants aware of the broker commission attached to a 529 plan.



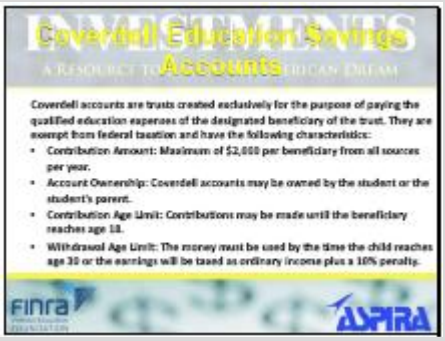
- To avoid broker fees or commissions, buy directly from the plan sponsor or program manager.



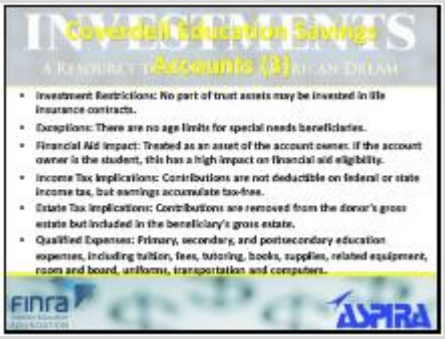
- Emphasize that with limited exceptions, you can only use 529 earnings to cover eligible educational costs.

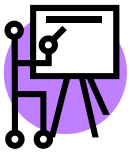


- Make sure participants understand the impact on their children financial aid eligibility if you invest on a 529 plan.



- The following slides describe the features of a Coverdell education savings account.





Closure:

- Review lesson objectives with participants.
- Remind participants that the cost projection for educational expenses is high, but if properly planned they will be able to cover their children's educational expenses.

Learning Assessment:

- Ask participants: Can you describe the steps to develop a plan for financing your child's future educational expenses?

Reference Materials

- 529 Plans - Frequently Asked Questions: FINRA - http://www.finra.org/InvestorInformation/InvestmentChoices/CollegeSavingsPlans/529CollegeSavingsPlansFAQ/index.htm

One of the best ways to increase the affordability of your child's education is to take advantage of federal tax breaks aimed at families saving and paying for college. These include the following:

Qualified Tuition Programs (529 plans)

A 529 plan is a tax-advantaged savings plan designed to encourage saving for future college costs. 529 plans, legally known as "qualified tuition plans," are sponsored by states, state agencies, or educational institutions and are authorized by Section 529 of the Internal Revenue Code.

There are two types of 529 plans: prepaid tuition plans and college savings plans. All 50 states and the District of Columbia sponsor at least one type of 529 plan. In addition, a group of private colleges and universities sponsor a prepaid tuition plan.

What are the differences between prepaid tuition plans and college savings plans?

Prepaid tuition plans generally allow college savers to purchase units or credits at participating colleges and universities for future tuition and, in some cases, room and board. Most prepaid tuition plans are sponsored by state governments and have residency requirements. Many state governments guarantee investments in prepaid tuition plans that they sponsor.

College savings plans generally permit a college saver (also called the “account holder”) to establish an account for a student (the “beneficiary”) for the purpose of paying the beneficiary’s eligible college expenses. An account holder may typically choose among several investment options for his or her contributions, which the college savings plan invests on behalf of the account holder. Investment options often include stock mutual funds, bond mutual funds, and money market funds, as well as, age-based portfolios that automatically shift toward more conservative investments as the beneficiary gets closer to college age. Withdrawals from college savings plans can generally be used at any college or university. Investments in college savings plans that invest in mutual funds are not guaranteed by state governments and are not federally insured.

The following chart outlines some of the major differences between prepaid tuition plans and college savings plans.[1]

Prepaid Tuition Plan	College Savings Plan
Locks in tuition prices at eligible public and private colleges and universities.	No lock on college costs.
All plans cover tuition and mandatory fees only. Some plans allow you to purchase a room-and-board option or use excess tuition credits for other qualified expenses.	Covers all "qualified higher education expenses," including: • Tuition • Room and board • Mandatory fees • Books, computers (if required)
Most plans set lump sum and installment payments prior to purchase based on age of beneficiary and number of years of college tuition purchased.	Many plans have contribution limits in excess of $200,000.
Many state plans guaranteed or backed by state.	No state guarantee. Most investment options are subject to market risk. Your investment may make no profit or even decline in value.
Most plans have age/grade limit for beneficiary.	No age limits. Open to adults and children.
Most state plans require either owner or beneficiary of plan to be a state resident.	No residency requirement. However, nonresidents may only be able to purchase some plans through financial advisers or brokers.
Most plans have limited enrollment period.	Enrollment open all year.

[1] Source: *Smart Saving for College*, FINRA®

Is investing in a 529 plan right for me?

Before you start saving specifically for college, you should consider your overall financial situation. Instead of saving for college, you may want to focus on other financial goals like buying a home, saving for retirement, or paying off high-interest credit card bills. Remember that you may face penalties or lose benefits if you do not use the money in a 529 account for higher education expenses. If you decide that saving specifically for college is right for you, then the next step is to determine whether investing in a 529 plan is your best college saving option. Investing in a 529 plan is only one of several ways to save for college. Other tax-advantaged ways to save for college include Coverdell education savings accounts, Uniform Gifts to Minors Act ("UGMA") accounts, Uniform Transfers to Minors Act ("UTMA") accounts, tax-exempt municipal securities, and savings bonds. Saving for college in a taxable account is another option.

Each college saving option has advantages and disadvantages, and may have a different impact on your eligibility for financial aid, so you should evaluate each option carefully. If you need help determining which options work best for your circumstances, you should consult with your financial professional or tax advisor before you start saving.

What questions should I ask before I invest in a 529 plan?

Knowing the answers to the following questions may help you decide which 529 plan is best for you.

- Is the plan available directly from the state or plan sponsor?
- What fees are charged by the plan? How much of my investment goes to compensating my broker? Under what circumstances does the plan waive or reduce certain fees?
- What are the plan's withdrawal restrictions? What types of college expenses are covered by the plan? Which colleges and universities participate in the plan?
- What types of investment options are offered by the plan? How long are contributions held before being invested?
- Does the plan offer special benefits for state residents? Would I be better off investing in my state's plan or another plan? Does my state's plan offer tax advantages or other benefits for investment in the plan it sponsors? If my state's plan charges higher fees than another state's plan, do the tax advantages or other benefits offered by my state outweigh the benefit of

investing in another state's less expensive plan?

- What limitations apply to the plan? When can an account holder change investment options, switch beneficiaries, or transfer ownership of the account to another account holder?

- Who is the program manager? When does the program manager's current management contract expire? How has the plan performed in the past?

How does investing in a 529 plan affect federal and state income taxes?

Investing in a 529 plan may offer college savers special tax benefits. Earnings in 529 plans are not subject to federal tax, and in most cases, state tax, so long as you use withdrawals for eligible college expenses, such as tuition and room and board.

However, if you withdraw money from a 529 plan and do not use it on an eligible college expense, you generally will be subject to income tax and an additional 10% federal tax penalty on earnings. Many states offer state income tax or other benefits, such as matching grants, for investing in a 529 plan. But you may only be eligible for these benefits if you participate in a 529 plan sponsored by your state of residence. Just a few states allow residents to deduct contributions to *any* 529 plan from state income tax returns.

If you receive state tax benefits for investing in a 529 plan, make sure you review your plan's offering circular before you complete a transaction, such as rolling money out of your home state's plan into another state's plan. Some transactions may have state tax consequences for residents of some states.

What fees and expenses will I pay if I invest in a 529 plan?

It is important to understand the fees and expenses associated with 529 plans because they lower your returns. Fees and expenses will vary based on the type of plan. Prepaid tuition plans typically charge enrollment and administrative fees. In addition to "loads" for broker-sold plans, college savings plans may charge enrollment fees, annual maintenance fees, and asset management fees. Some of these fees are collected by the state sponsor of the plan, and some are collected by the financial services firms that the state sponsor typically hires to manage its 529 program. Some college savings plans will waive or reduce some of these fees if you maintain a large account balance or participate in an automatic contribution plan, or if you are a resident of the state sponsoring the 529 plan. Your asset management fees will depend on the investment option you select. Each investment option will typically bear a portfolio-weighted average of the fees and expenses of the mutual funds and other investments in which it invests. You should carefully review the fees of the underlying investments because they are likely to be different for each investment option.

Investors that purchase a college savings plan from a broker are typically subject to additional fees. If you invest in a broker-sold plan, you may pay a "load." Broadly speaking, the load is paid to your broker as a commission for selling the college savings plan to you. Broker-sold plans also charge an annual distribution fee (similar to the "12b 1 fee" charged by some mutual funds) of between 0.25% and 1.00% of your investment. Your broker typically receives all or most of these annual distribution fees for selling your 529 plan to you.

Many broker-sold 529 plans offer more than one class of shares, which impose different fees and expenses. Here are some key characteristics of the most common 529-plan share classes sold by brokers to their customers:

Class A shares typically impose a front-end sales load. Front-end sales loads reduce the amount of your investment. For example, let's say you have $1,000 and want to invest in a college savings plan with a 5% front-end load. The $50 sales load you must pay is deducted from your $1,000, and the remaining $950 is invested in the college savings plan. Class A shares usually have a lower annual distribution fee and lower overall annual expenses than other 529 share classes. In addition, your front-end load may be reduced if you invest above certain threshold amounts – this is known as a breakpoint discount. These discounts do not apply to investments in Class B or Class C shares.

Class B shares typically do not have a front-end sales load. Instead, they may charge a fee when you withdraw money from an investment option, known as a deferred sales charge or "back-end load." A common back-end load is the "contingent deferred sales charge" or "contingent deferred sales load" (also known as a "CDSC" or "CDSL"). The amount of this load will depend on how long you hold your investment and typically decreases to zero if you hold your investment long enough. Class B shares typically impose a higher annual distribution fee and higher overall annual expenses than Class A shares. Class B shares usually convert automatically to Class A shares if you hold your shares long enough.

Be careful when investing in Class B shares. If the beneficiary uses the money within a few years after purchasing Class B shares, you will almost always pay a contingent deferred sales charge or load in addition to higher annual fees and expenses.

Class C shares might have an annual distribution fee, other annual expenses, and either a front- or back-end sales load. But the front- or back-end load for Class C shares tends to be lower than for Class A or Class B shares, respectively. Class C shares typically impose a higher annual distribution fee and higher overall annual expenses than Class A shares, but, unlike Class B shares, generally do not convert to another

class over time. If you are a long-term investor, Class C shares may be more expensive than investing in Class A or Class B shares.

Is there any way to purchase a 529 plan but avoid some of the extra fees?

Direct-Sold College Savings Plans. States offer college savings plans through which residents and, in many cases, nonresidents can invest without paying a "load" or sales fee. This type of plan, which you can buy directly from the plan's sponsor or program manager without the assistance of a broker, is generally less expensive because it waives or does not charge sales fees that may apply to broker-sold plans. You can generally find information on a direct-sold plan by contacting the plan's sponsor or program manager or visiting the plan's Web site. Web sites such as the one maintained by the College Savings Plan Network, as well as a number of commercial Web sites, provide links to most 529 plan Web sites.

Broker-Sold College Savings Plans. If you prefer to purchase a broker-sold plan, you may be able to reduce the front-end load for purchasing Class A shares if you invest or plan to invest above certain threshold amounts. Ask your broker how to qualify for these "breakpoint discounts."

What restrictions apply to an investment in a 529 plan?

Withdrawal restrictions apply to both college savings plans and prepaid tuition plans. With limited exceptions, you can only withdraw money that you invest in a 529 plan for eligible college expenses without incurring taxes and penalties. In addition, participants in college savings plans have limited investment options and are not permitted to switch freely among available investment options. Under current tax law, an account holder is only permitted to change his or her investment option one time per year. Additional limitations will likely apply to any 529 plan you may be considering. Before you invest in a 529 plan, you should read the plan's offering circular to make sure that you understand and are comfortable with any plan limitations.

Does investing in a 529 plan impact financial aid eligibility?

While each educational institution may treat assets held in a 529 plan differently, investing in a 529 plan will generally reduce a student's eligibility to participate in need-based financial aid. Since July 1, 2006, assets held in prepaid tuition plans and college savings plans are treated similarly for federal financial aid purposes. Both are treated as parental assets in the calculation of the expected family contribution toward college costs. Previously, benefits from prepaid tuition plans were not treated as parental assets and typically reduced need-based financial aid on a dollar for dollar basis, while assets held in college savings plans received more favorable financial aid treatment.

Coverdell Education Savings Accounts

Coverdell Education Savings Accounts (ESAs) were previously known as Education IRAs. They were originally established by the Taxpayer Relief Act of 1997 (P.L. 105-34), and then subsequently expanded by the Economic Growth and Tax Relief Reconciliation Act of 2001, P.L. 107-16 (EGTRRA).

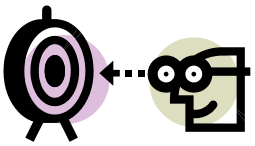
Coverdell accounts are trusts created exclusively for the purpose of paying the qualified education expenses of the designated beneficiary of the trust. They are exempt from federal taxation and have the following characteristics:

- **Contribution Amount:** Maximum of $2,000 per beneficiary from all sources per year. (There is an exception for contributions resulting from a rollover.)
- **Account Ownership:** Coverdell accounts may be owned by the student or the student's parent.
- **Contribution Age Limit:** Contributions may be made until the beneficiary reaches age 18.
- **Withdrawal Age Limit:** The money must be used by the time the child reaches age 30 or the earnings will be taxed as ordinary income plus a 10% penalty.
- **Rollovers:** Coverdell accounts may be rolled over to the Coverdell account of a family member of the previous beneficiary.
- **Income Phase outs:** Contributions are phased out for incomes between $95,000 and $110,000 (single filers) or $190,000 and $220,000 (married filing jointly). (These phase outs may potentially be bypassed by giving money to the child through UGMA/UTMA and having the child contribute to his or her own Coverdell account.)
- **Corporations May Contribute:** Corporations, including tax-exempt organizations, may contribute to an individual's Coverdell account, regardless of income level.
- **Contributions in Cash:** Contributions must be in the form of cash. Contributions of stocks, bonds, and other savings vehicles are not permitted.
- **Investment Restrictions:** No part of trust assets may be invested in life insurance contracts. However, investment options are not otherwise as limited as those offered by section 529 plans.

- **Exceptions:** There are no age limits for special needs beneficiaries.
- **Financial Aid Impact:** Treated as an asset of the account owner. If the account owner is the student, this has a high impact on financial aid eligibility. (But note that the Higher Education Reconciliation Act of 2005 added special treatment for Coverdell, Prepaid Tuition and 529 College Savings Plan accounts owned by a *dependent student*. The impact on need-based aid for dependent students will therefore be minimal.) If the account owner is the parent, this has a low impact on financial aid eligibility. Qualified distributions from a Coverdell account are not counted as income on the FAFSA and thus do not reduce financial aid eligibility.
- **Income Tax Implications:** Contributions are not deductible on federal or state income tax, but earnings accumulate tax-free. Qualified distributions are exempt from federal income tax. Contributions may be made until the due date of the contributor's tax return (normally April 15 of the following year). Non-qualified withdrawals are taxed as ordinary income at donor's rate and subject to a 10% tax penalty. (Nonqualified distributions remain tax-free in cases of death or disability of the beneficiary.)
- **Estate Tax Implications:** Contributions are removed from the donor's gross estate but included in the beneficiary's gross estate.
- **Qualified Expenses:** Primary, secondary, and postsecondary education expenses, including tuition, fees, tutoring, books, supplies, related equipment, room and board, uniforms, transportation, and computers.
- **Coordination with Section 529 Plans:** You can contribute to both a Coverdell account and a section 529 plan in the same year, but there may be gift tax implications if you give more than $12,000 per beneficiary.
- **Coordination with Education Tax Credits:** You can claim a Hope Scholarship and/or Lifetime Learning tax credit in the same year as you withdraw funds from a Coverdell Account, so long as the credits are claimed using different qualified education expenses than those paid from the Coverdell distribution. You can't use the same expenses to justify two different programs.
- **Qualified Education Expenses:** In addition to higher education expenses such as tuition and fees, Coverdell Education Savings Accounts can also be used to pay for elementary and secondary education.

U.S. Savings Bonds – A Reliable Way for Saving For Your Children Education

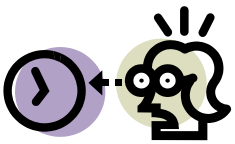
Lesson No. M3.3



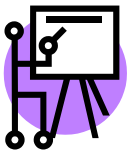
Lesson Objectives:

After completing this lesson participants should be able to:

- Recognize that U.S. Saving Bonds are one of the options to invest to cover their children's educational expenses
- Understand how to invest in U.S. Savings Bonds



Time Required: 40 Minutes

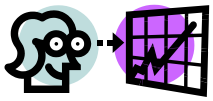


Lesson Teaching Tips

- After presenting the module objectives, ask participants to complete the "Test your Money Smarts" quiz.
- Discuss quiz results. Use the results to initiate the discussion of the topic.

Questions to Generate Discussion

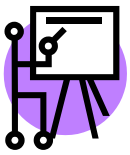
- How many of you are currently saving money?
- How many of you are currently investing?
- Can you share with us your investment goal?



PowerPoint Slides Thumbnails

Slide Notes

- Discuss what bonds are.
- Discuss why U.S. Saving Bonds are secure investments.
- When you purchase a U.S. Savings Bond, you're lending money to the United States.
- The purchase price is one half of the face value of the bond. For example, a $100 bond costs $50.
- If possible, visit the Treasury Direct Web site and explore more

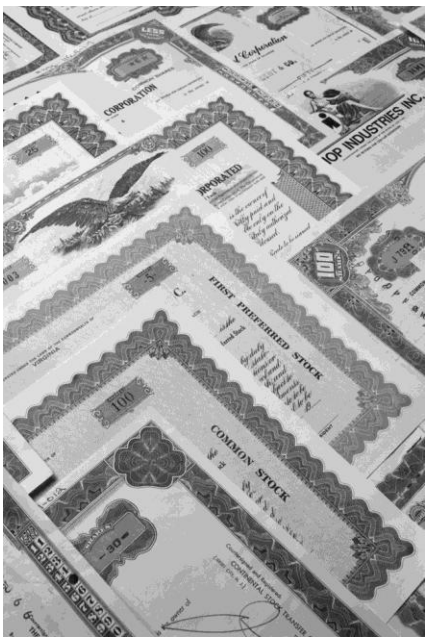
		information about the U.S. securities and programs. • U.S. Savings Bonds can be purchase from banks or online from Treasury Direct.
		• Series EE Bonds purchased after May 1, 2005 earn an interest rate that remains fixed for the life of the bond, instead of changing every six months as they used to. • The best way to determine the rate for older bonds is to use the Treasury Department's free software, "Savings Bond Wizard."
		• Make participants aware that the saving bonds earnings are tax-free when used to cover allowed educational expenses. • In 2007, the tax exclusion was phased out for incomes between $65,600 and $80,600 (between $98,400 and $128,400 for married taxpayers filing jointly).
	**Closure:** • Review lesson objectives with participants. • U.S. Savings Bonds are a very safe investment, but if the projected educational expenses are very high, they might not be the best investment option.	
	**Learning Assessment:** • Ask participants to define what U.S. Savings Bonds are, where they can be purchase, and their tax-exempt use.	

Reference Materials

- All you need to know about U.S. securities and programs from Treasury Direct: http://www.treasurydirect.gov/indiv/products/products.htm

It would be a challenge to find a less sexy investment than U.S. Savings Bonds (unless it's passbook savings accounts), yet Savings Bonds are purchased by one in five Americans. Since Savings Bonds have greatly underperformed the stock market for years, why do so many people buy them? And should they? [1] Savings Bonds are appealing to investors for several reasons:

- Since they're backed by the full faith and credit of the U.S. government, they're one of the safest investments.
- They're free of state and local income tax, which increases their effective yield.
- They're federal tax-deferred (taxes are paid when the bonds are sold), allowing you to claim the income at a time when you are in a lower tax bracket.
- Bonds purchased since January of 1990 may be free of federal tax altogether if used to pay for a child's college tuition, if the parents fall within the eligible income levels.



While the interest rate earned on Savings Bonds is low compared to the historical performance of the stock market, if your primary concern is protecting your principal, saving for a child's education, or generating tax-deferred income for retirement, they may have a place in your portfolio.

When the stock market is not performing well and interest rates on savings and Certificates of Deposit are low, savings bonds are even more attractive to many investors. However, they should be used to supplement your 401(k) or other retirement plan, and not as the basis for your retirement.

While you won't get rich by investing in U.S. Savings Bonds, you won't lose your shirt either.

[1] Source: About.com http://financialplan.about.com/cs/investing/a/USSavingsBonds.htm

The best way to take advantage of them is to understand how they work. Most of the information in this article refers to Series EE Savings Bonds. For an explanation of the differences between Series EE and Series I Savings Bonds, see Bureau of the Public Debt Online.

What Is A U.S. Savings Bond?

A bond is a loan to a company or government agency, which agrees to pay it back at a fixed rate of interest over a fixed period of time. When you purchase a U.S. Savings Bond, you're lending money to the United States. The purchase price is one half of the face value of the bond. For example, a $100 bond costs $50.

Where Can I Buy U.S. Savings Bonds?

Series EE Savings Bonds can be purchased in several ways:

- Through any bank or financial institution that serves as a Savings Bonds Agent.
- Through a payroll savings plan offered by many employers.
- Online, through the U.S. Treasury Department's TreasuryDirect.

What Interest Rate Does a U.S. Savings Bond Pay?

Over the years, the Treasury Department has changed the way interest on savings bonds is calculated a number of times. Series EE Bonds purchased after May 1, 2005 earn an interest rate that remains fixed for the life of the bond, instead of changing every six months as they used to. Series EE Savings Bonds issued prior to May 1, 2005 will continue to earn interest under the terms in effect when they were issued.

The best way to determine the rate for older bonds is to use the Treasury Department's free software, "Savings Bond Wizard."

How Long Does It Take Savings Bonds to Reach Their Face Value?

The original maturity (the period of time it takes a bond to grow from its purchase price to its face value at its guaranteed interest rate), varies with the Treasury notes' variable market rate, so it's impossible to predict the maturity date in advance. The higher the market rate, the faster the bond matures. In no case will a Series EE bond take more than 20 years to mature.

In the past, it's been difficult to assess the current value of your Savings Bonds, but the U.S. Treasury Department now offers a free software program called the Savings Bond Wizard, which allows you to maintain an inventory of your bonds and determine the current redemption value, interest earned, interest rate, and

more. There are also online calculators to help you calculate the current value of your Bonds.

How Long Do Savings Bonds Continue To Earn Interest?

Series EE Savings Bonds continue to earn interest for 30 years (their final maturity), although they usually reach their face value in no more than 20 years.

How Can I Redeem (Cash-in) My Savings Bonds?

Series E and EE Bonds can be redeemed at most banks and financial institutions, unless the bond is issued to a guardian or trustee, a corporation or other type of company or institution. In these instances, the bonds have to be redeemed at a Federal Reserve Bank or the Bureau of Public Debt.

Using U.S. Savings Bonds to Cover Tuition Costs

EE and I bonds purchased after 1989 by someone at least 24 years old may be redeemed tax-free when the bond owner or the bond owner's spouse or dependent pays for college tuition and fees. In 2007, the tax exclusion is phased out for incomes between $65,600 and $80,600 (between $98,400 and $128,400 for married taxpayers filing jointly). These income limits increase each year.

Income Tax Incentives

Lesson No. M3.4

Lesson Objectives:

After completing this lesson participants should be able to:

- MISSING!

Time Required: 40 Minutes

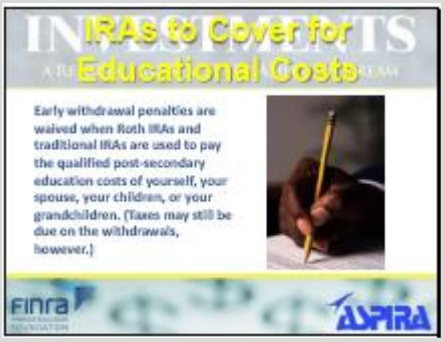
Lesson Teaching Tips

- After presenting the module objectives, ask participants to complete the "Test your Money Smarts" quiz.
- Discuss quiz results. Use the results to initiate the discussion of the topic.

Questions to Generate Discussion

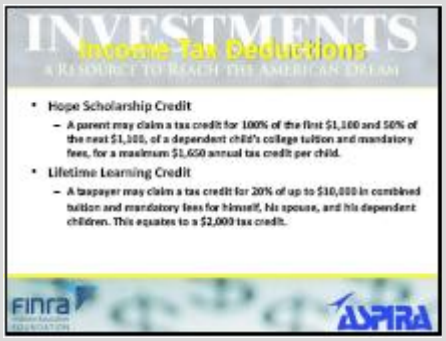
- How many of you are currently saving money?
- How many of you are currently investing?
- Can you share with us your investment goal?

PowerPoint Slides Thumbnails



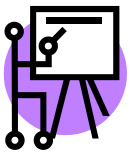
Slide Notes

- Discuss what IRAs are. More information will be presented on next Module.
- Point the advantage of using IRAs as an investment option to cover for educational expenses.
- Also, the nonuse portion of the IRA can be use later (at maturity) for retirement without any penalties.



- Participants must be aware of these potential deductions not only for their dependants but also for themselves.

- These are deductions and not financial instruments to reach the necessary amount to cover the projected educational expenses. They will help to recuperate some of the incurred expenditures.



Closure:

- Review lesson objectives with participants.
- Indicate to the participants that they will learn more about IRA accounts on the next module.

Learning Assessment:

- Ask participants to list the number of potential educational tax credits and tax incentives programs.

Reference Materials

- Tax Credits for Education: IRS Publication 970 http://www.irs.gov/pub/irs-pdf/p970.pdf

Using Individual Retirement Accounts (IRA) to Cover for Educational Costs

A Traditional Individual Retirement Account (or Traditional IRA for short), is a special type of account which allows investors to make tax-deductible contributions. The money can be invested in stocks, bonds, mutual funds, etc., and the earnings grow tax-free until the account's owner turns 59 1/2 years old (if

money is withdrawn before this age, a 10% penalty is incurred). At this time, the account holder is allowed to begin withdrawing money from the account to fund their retirement.

In Roth IRAs contributions are NOT deductible when the funds are contributed, but the Roth IRA earnings accumulate tax-free and remain tax-free upon distribution. To be eligible to contribute, your Adjusted Gross Income must be under $95,000 for singles and $150,000 for married couples, as of December 2000. You cannot withdraw your funds within the first 5 years after the establishment of the Roth without a penalty.

Early withdrawal penalties are waived when Roth IRAs and traditional IRAs are used to pay the qualified postsecondary education costs of yourself, your spouse, your children, or your grandchildren. (Taxes may still be due on the withdrawals, however.)

Hope Scholarship Credit

The Hope Scholarship is a tax credit, not a scholarship. Tax credits are subtracted directly from the tax a family owes, instead of being subtracted from taxable income like a tax deduction. A family must file a federal tax return and owe taxes to get this tax credit. A family cannot get a refund for the Hope credit if it does not pay taxes. A family that owes less tax than the maximum amount of the Hope tax credit for which it is eligible can only take a credit up to the amount of taxes owed.

A parent may claim a tax credit for 100% of the first $1,100 and 50% of the next $1,100, of a dependent child's college tuition and mandatory fees, for a maximum $1,650 annual tax credit per child. Students may claim the credit only if they are not claimed as a dependent on another person's tax return. In 2007, the credit is phased out for incomes between $47,000 and $57,000 (between $94,000 and $114,000 for married taxpayers filing jointly). The credit is allowed only for students who are attending a degree program at least half-time and who have not completed their first two years of academic study before the beginning of the taxable year. It cannot be claimed in more than two tax years for any one student.

Lifetime Learning Credit

The Lifetime Learning Credit is a nonrefundable credit equal to 20 percent of the first $5,000 of qualified higher education tuition and fees paid during the year on behalf of the taxpayer, his or her spouse, or his or her dependents.

A taxpayer may claim a tax credit for 20% of up to $10,000 in combined tuition and mandatory fees for himself, his spouse, and his dependent children. This equates to a $2,000 tax credit. In 2007, the credit is phased out for incomes

between $47,000 and $57,000 (between $94,000 and $114,000 for married taxpayers filing jointly). Claiming the Hope Scholarship credit described above means that you may not claim a Lifetime Learning credit for any of that student's expenses in the same tax year. There is no requirement that the student be studying toward a degree or be enrolled at least half-time, and there is no limit on the number of years the credit may be taken.

Tuition and Fees Deductions

An above-the-line deduction (this means you do not have to itemize your deductions) for up to $4,000 of the college tuition and related expenses of yourself, your spouse, or your dependent is available in 2007 if your income is $65,000 or less ($130,000 or less if you are married filing jointly). For taxpayers with incomes between $65,000 and $80,000 (between $130,001 and $160,000 for married taxpayers filing jointly), the deduction limit is $2,000. The deduction is not available if anyone claims a Hope or Lifetime Learning credit for that student's expenses in the same tax year. This deduction is scheduled to expire at the end of 2007.

Deduction for Student-loan Interest

Up to $2,500 in student loan interest may be deducted above-the-line as long as the debt was incurred to pay the college costs for yourself, your spouse, or your dependent, while enrolled as a student at least half-time in a degree program. For 2007, the deduction is phased out for income between $55,000 and $70,000 (between $110,000 and $140,000 for married taxpayers filing jointly). A student claimed as a dependent may not take the deduction on his or her own return.

Tax-free Scholarships

Most scholarships and grants are tax-free if the recipient does not have to provide services in exchange for the award.

Tax-free Educational Assistance

Employers may pay and deduct up to $5,250 in college and graduate school costs for each employee under a Section 127 educational assistance plan. The education does not have to be job-related. The benefit is tax-free to the employee, but cannot be used to pay for an employee's children or other family members.

Additional Learning Resources

Please visit the following online resources to learn more about the subjects presented on this module:

- ***Offering Circulars for 529 Plans*.** You can find out more about a particular 529 plan by reading its offering circular. Often called a "disclosure statement," "disclosure document," or "program description," the offering circular will have detailed information about investment options, tax benefits and consequences, fees and expenses, financial aid, limitations, risks, and other specific information relating to the 529 plan. Most 529 plans post their offering circulars on publicly available Web sites. The National Association of State Treasurers created the College Savings Plan Network, which provides links to most 529 plan Web sites.
- ***Additional Information about Underlying Mutual Funds***. You may want to find more about a mutual fund included in a college savings plan investment option. Additional information about a mutual fund is available in its prospectus, statement of additional information, and semiannual and annual report. Offering circulars for college savings plans often indicate how you can obtain these documents from the plan manager for no charge. You can also review these documents on the SEC's EDGAR database.
- ***Investment Adviser Public Disclosure Web site***. Many college savings plans' program managers are registered investment advisers. You can find more about investment advisers through the Investment Adviser Public Disclosure Web site. On the Web site, you can search for an investment adviser and view the Form ADV of the adviser. Form ADV contains information about an investment adviser and its business operations as well as disclosure about certain disciplinary events involving the adviser and its key personnel.
- ***Broker-Dealer Public Disclosure Web site***. You can find more about a broker through FINRA's BrokerCheck Web site. On the Web site, you can search for any disciplinary sanctions against your broker, as well as information about his or her professional background and registration and licensing status.
- **Tax incentives for Education:** For more information on tax incentives for education, see IRS Publication 970, Tax Benefits for Higher Education, available at www.irs.gov