school and summer employment, to supplement the range of financial avenues to a college education.

Other last-minute strategies exist, but most should be viewed simply as last resorts. For example, you could consider a home equity loan with tax-deductible interest within certain limits, a refinanced mortgage that frees up cash, or borrowing from your retirement savings. But, these options could jeopardize your future. In many cases, parents are saving for their own retirement at the same time their children are attending school. If you use the money you've saved for retirement for your child's future, what will happen to you?

Graduation Means "Payback" Time

If your child must use student loans, today, there are more plans available that offer students flexible payment schedules. If your child is applying for a federal student loan now, consider choosing a **graduated repayment plan** that will allow smaller payments upon graduation and larger payments at a later time when the graduate may be earning more money in the working world.

An **income-contingent repayment plan** may be another option. This plan calls for paying a fixed percentage of postgraduate income toward the student loan. This percentage could be approximately 5% to 10% of anything above the poverty level of a single person, which is $10,400 according to the Department of Health and Human Services (2008).

A third choice is an **extended repayment plan** that can lower monthly payments an estimated 20% to 30% and increase the loan payment schedule from 10 to 15 or even 20 years.

Consolidation Offers Flexibility

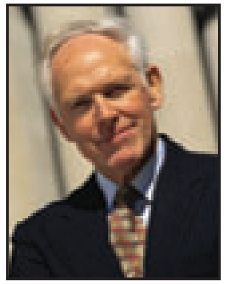
There is also good news if the student is already debt-laden. Under the Student Loan Reform Act of 1993, existing loans can be consolidated with a direct loan from the government. This plan offers a more flexible repayment schedule while interest rates remain the same. To be eligible for this plan, the original lender must offer an "income sensitive" repayment option. This plan adjusts the monthly payments for the loan's capital, but not the interest, to one's annual income. If the original lender will not agree to this option, the student may then be eligible for a direct loan from the government.

Two advantages of a direct government loan are as follows: First, the monthly installment payments of principal and interest are contingent upon income. Second, as wages increase, the percentage withdrawn from pay will also rise, allowing the loan to be paid off more quickly and with less accrued interest charges. Parents may also be able to take out a Direct PLUS loan for as much as the entire cost of their children's college education.

For information or inquiries regarding federal student aid programs, contact the Federal Student Aid Information Center at 800-433-3243, or check them out online at www.studentaid.ed.gov.

Start Now

The beauty of your college savings plan will be your ability to change it. This kind of flexibility is to your advantage, because your goals will change as time goes by. There's no need to put off planning. The time is now. Defining your goals early will help you plan how to reach them. Isn't now the best time to start planning for your life?



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Funding Higher Education

Is Your Strategy Sufficient to Cover All *College Costs?*

Ben Franklin once said, "An investment in knowledge pays the best interest." Whether it's your child's education or your own, proper planning can help fund the search for knowledge. Higher education may be a distant dream you hold for a child or a financial imperative staring you in the face. Either way, you can take immediate steps to begin meeting this challenge.

How Much Is Enough?

To project your funding needs, define your education goals in specific terms. For example, if current trends continue, the undergraduate degree will soon be viewed as a minimum standard, with graduate-level or professional education a requirement for a successful career and long-term financial stability. You may want to plan to fund only your child's undergraduate education and leave the responsibility for the cost of post-graduate work to the student. Or you may want to consider financing a less expensive undergraduate degree and allocating the majority of your educational investment to a prestigious graduate or professional school.

In addition, many college programs are designed for students to graduate in more than four years. You may want to plan from the beginning to cover the costs of a five-year degree. Also, are you preparing for a public or a private education? The six figure, four-year undergraduate education expense is a reality today at top private universities, and that figure is only expected to climb by the time today's infants reach college age. The cost for four years of undergraduate education at an in-state institution may also cost six figures for a child born today. And that only includes tuition, fees, room, and board. Personal expenses, extracurricular activities, transportation, books, and supplies may require additional funds. When planning, you should prepare for increases in college costs caused by inflation.

Considerations for All Ages

Once you've clearly defined your goals, develop a plan. If you have an infant or are expecting a child, make a decision *now* to set aside educational funds before the avalanche of day-to-day responsibilities hits. Starting early and saving a little at a time will reduce the impact on the rest of your financial obligations. If you create a plan and think long term, you'll be better prepared for tuition costs when they arrive.

Parents should consider taking three key actions with the birth of each child:

- Begin saving immediately.
- Add to the account regularly.
- Manage assets according to your risk tolerance and time horizon.

Even a small amount set aside from infancy or during preschool years can grow into a substantial sum by the time your child reaches high school. Here are some options to consider.

529 College Savings Plans

Each state has the ability to establish a **529 plan** as long as it meets federal regulations. 529 plans, which can be used at most colleges and universities, offer the potential for tax-free earnings if they are used to pay for qualified education expenses, such as tuition, room, and board. Nonqualified withdrawals are subject to income tax, as well as a 10% federal income tax penalty. In contrast, state-sponsored **pre-paid tuition programs** allow participants to "lock-in" tuition rates at eligible state colleges or universities with either a lump sum payment or monthly installments.

With 529 college savings plans, the contributor owns the account and, therefore, can ensure funds are used specifically for educational purposes. The account is

excluded from the contributor's estate in the event of death, and it can be transferred to another family member if the child does not go to college. Also, gift taxes are avoided for contributions up to $60,000, as long as no additional gifts are given to that individual during the five-year period, and there are no income limits on participation.

Coverdell Education Savings Accounts

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) changed the name of the Education IRA to the **Coverdell Education Savings Account (ESA)** and increased the allowable annual contribution amount to $2,000. In addition, these accounts may now be used to pay for elementary and secondary education, as well as college expenses. Income limits may apply. One major advantage of Coverdell ESAs is that if the funds are used to pay for qualified education expenses (e.g., room and board), earnings will not be taxed. Furthermore, you may now contribute to both a Coverdell ESA and a 529 plan for the same beneficiary without incurring any tax penalties. Be sure to keep in mind that if you do contribute to both, you will need to add these gifts together to determine your gift tax filings.

The Pension Protection Act signed into law on August 17, 2006 makes qualified tax-free distributions a permanent feature of 529 plans; this benefit had been scheduled to expire in 2011. Without further reform, the contribution limit for ESAs will drop from $2,000 to $500 in 2011.

Education Credits

EGTRRA also provided a boost to the **Hope Scholarship Credit** and the **Lifetime Learning Credit**. Income eligibility limits rose, and they are now subject to annual inflation adjustments. For 2008, eligibility phases out for married couples filing jointly with adjusted gross incomes (AGIs) of $96,000 ($48,000 for

single filers). In addition, the Hope Credit, which provides a $1,800 tax credit for college education expenses during a student's first two years, will also be eligible for yearly inflation adjustments. The Lifetime Learning Credit, which applies not only to undergraduate study, but also to graduate and professional education pursuits, could be worth up to $2,000.

Gifts and Tax Considerations

Parents and grandparents can make gifts worth up to $12,000 in 2008 ($24,000 for gifts made jointly by husband and wife), per child, free of any gift tax. The gifts can be held in a **Uniform Gift to Minors Act (UGMA)**, **Uniform Transfer to Minors Act (UTMA)**, or in some other vehicle, depending on the state in which you reside. Investing under a child's name could trigger an income tax issue. Under the "kiddie tax," until a child reaches age 19, unearned income up to $1,700 will be taxed at the child's lower rate. The excess will be taxed at the parent's tax bracket. When the child reaches age 19, all income generated in his or her name is taxed at the child's rate. Keep in mind that assets placed in a child's name could reduce financial aid or make the child ineligible for financial aid.

Last-Minute Strategies

If you're starting to prepare for education expenses that are just over the horizon, take heart. There's still time to prepare for the costs, and even when your child starts college, you still have four to five years to save. Families that are one to three years away from the college admission process may want to take advantage of short-term options, such as bank certificates of deposit (CDs) or U.S. government notes. Students may also apply for financial aid, which includes scholarships, grants, or loans available to both students and parents. Students can also investigate work-study programs, along with after-