COLLEGE CASH PRO / SERVICE OF CLEAR VIEW WEALTH ADVISORS, LLC

College Planning Report

PREPARED FOR

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College Cash Pro / service of Clear View Wealth Advisors, LLC - Solutions Plan

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I. How Much Will University of California: Davis Cost for SAMPLE?

The current Cost of Attendance (COA) at University of California: Davis is $33,836. COA is determined by totaling the costs for tuition and fees, room and board, books and supplies, personal expenses and travel.

If the student starts college in 1 year(s), the four-year projected cost at University of California: Davis will be $145,803 using a 3% annual inflation rate.

University of California: Davis uses the Federal Methodology to determine your Expected Family Contribution (EFC). Your EFC is what your family is expected to contribute toward the annual cost of attendance, before qualifying for any need-based financial aid. Your current EFC is calculated to be $13,013.

The Financial Need amount is determined by subtracting the Expected Family Contribution (EFC) from the Cost of Attendance (COA) at University of California: Davis.

University of California: Davis

COST OF ATTENDANCE
$33,836

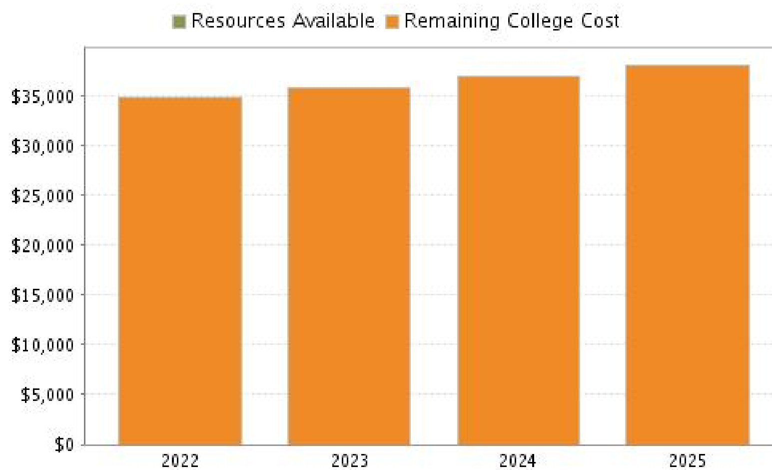
PROJECTED 4-YEAR COST
$145,803

FINANCIAL NEED AMOUNT
$20,823

4 AND 6-YEAR GRADUATION RATES
51%/85%

The current 4 and 6-year graduation rates at University of California: Davis are 51% and 85%.

ANNUAL PROJECTED COLLEGE COSTS VERSUS CURRENT RESOURCES AVAILABLE



ESTIMATED SHORTFALL - THE COLLEGE FUNDING GAP

WILL YOU NEED TO PAY THE FULL COST OF ATTENDANCE AT UNIVERSITY OF CALIFORNIA: DAVIS?

Many schools offer a significant discount off of the advertised cost of attendance for families that do not qualify for need based financial aid. Knowing the average discount received by families that are not candidates for need based financial aid can be very helpful for determining college affordability and college funding strategies.

AVERAGE TUITION DISCOUNT AS A % OF COST OF ATTENDANCE
17%

Average non-need based award (for students that are not candidate for need-based financial aid) for **University of California: Davis** is **$5,633** or **17%** of the estimated COA of **$33,836**.

TIP: If your student is in the top 20% of the incoming applicant pool, they may receive a more generous award which would further reduce your college costs.

II. Analysis - How Can You Save ON the Cost of College?

Based on your financial need of **$20,823**, you may qualify for some financial aid at **University of California: Davis**. However, you may choose to pursue a college funding plan that focuses on strategies that are not intended to maximize financial aid, but to maximize your ability to pay the cost of college through implementing various income, asset, academic, investment and funding strategies. The effects of implementing these strategies are more predictable than financial aid strategies. Financial Aid Administrators have significant influence in determining how much and what type of financial aid a student will receive. The effects of the strategies in this plan are more directly in your control than financial aid strategies.

Here are three ways that you save on your out-of-pocket college costs without being a candidate for need-based financial aid:

1. With the help of the actionable information and strategies in this report.
2. Selecting the right school for your student.
3. Applying for financial aid.

COLLEGE ADMISSIONS - FINDING THE RIGHT COLLEGE FOR ALL THE RIGHT REASONS

The college list is the most important factor in college affordability. Parents can do all the right things: plan financially, implement strategies to increase aid eligibility and correctly fill out the financial aid forms. Students can get good grades, join clubs, volunteer, take test prep courses and write amazing essays. As important as all these items are, they are secondary to the single most important factor in paying the least amount of money possible and still getting a great education for your child: STARTING with the RIGHT list of candidate schools!

The financial costs of starting with the wrong list can total tens of thousands of dollars resulting from:

- Taking longer to graduate which means higher out-of-pocket college costs and maybe even more debt, for the student and the parents.
- The high cost associated with transferring to another school with respect to lost aid and credits.
- Changes of major which delay graduation and income earning.
- Attending a school that won't provide enough, if any, financial aid or scholarships to help offset cost.
- Needless college visits, wasting time and money on schools that aren't a good fit for your student or your finances.

RECOMMENDED ACTION:

Consider professional help in finding excellent college matches for your student to avoid the pitfalls described above. Start with the right college list and you are far more likely to send your child to the right college for the right reasons and at the right price. Once you have validated the list of target schools, capitalize on appropriate savings, planning and funding strategies --- like the ones in this report --- to help you most effectively and efficient prepare and pay for college costs

APPLYING FOR FINANCIAL AID - NO MATTER WHAT

We strongly encourage you to apply for financial aid, regardless of your family's financial situation and whether or not you may be a candidate for need-based financial aid.

Applying for financial aid is part of an overall strategy for reducing your out-of-pocket college costs. Here's why:

1. Many colleges require the completion of a financial aid form to qualify for merit grants and scholarships.
2. Most student loan applications (Unsubsidized Stafford and PLUS) also require the completion of a financial aid form.
3. Your financial situation may change.
4. You may ultimately select a school where you will qualify for financial aid.
5. Ironically, colleges will offer tuition discounts to families that have the ability to pay! The way they know about your financial situation and ability to pay is via the financial aid forms that you complete and submit.

So, if you want them to offer you a tuition discount, which could significantly reduce your costs, apply for financial aid.

CONCLUSION

Making the right decisions and doing things correctly during the college admissions and forms process will help to assure a best outcome - best college fit for your student with significant savings on your out-of-pocket college costs.

III. Merit Scholarships for SAMPLE at University of California: Davis

COLLEGE SCHOLARSHIPS

Based on the student's academic profile: SAT/ACT scores, GPA, Class Rank, etc., following are merit money opportunities at University of California: Davis that the student may qualify for. These scholarship/grants do not have to be paid back, are based on the merit of the student and can help to significantly reduce the family's out-of-pocket college costs.

TIP: How to use the information in this section:

1. Check the scholarship deadlines so that you don't miss them!
2. Compare student test scores versus scholarship requirements and determine if test prep course would be worth it
3. Check the scholarship requirements to learn what may be required beyond the admissions application

UNIVERSITY OF CALIFORNIA DAVIS - REGENTS SCHOLARSHIP

Eligible Based On Supplied Information: **No**

Amount: **$7,500.00**

Min GPA: **3.8**

Min SAT: **1260**

Min ACT: **26**

Min Class Rank: **not available**

Number Available: **Limited**

Essay Required: **No**

Interview Required: **No**

Audition Required: **No**

Specified Majors: **all**

Scholarship Deadline: **2021-01-04**

For Minority: **No**

Renewable: **Yes**

State of Residence: **N/A**

Notes To Renew: **Maintain 3.25 GPA. Enrolled full-time.**

Notes: **Qualified students with demonstrated financial need may receive an additional stipend designed to supplement the student's own resources. See website for additional information.**

Scholarship Link: **https://www.ucdavis.edu/cost/s**

UNIVERSITY OF CALIFORNIA DAVIS - ALUMNI SCHOLARSHIP

ELIGIBLE BASED ON SUPPLIED INFORMATION: Yes

Amount: **$2,500.00**

Min GPA: **3.5**

Min SAT: **850**

Min ACT: **16**

Min Class Rank: **not available**

Number Available: **Limited**

Essay Required: **No**

Interview Required: **Yes**

Audition Required: **No**

Specified Majors: **all**

Scholarship Deadline: **2021-05-01**

For Minority: **No**

Renewable: **Yes**

State of Residence: **N/A**

Notes To Renew: **Maintain good academic standing. Enrolled full-time**

Notes: **Award ranges $1,000-$4000. See website for additional information.**

Scholarship Link: **https://www.ucdavis.edu/cost/s**

UNIVERSITY OF CALIFORNIA DAVIS - CALIFORNIA'S MIDDLE CLASS SCHOLARSHIP

ELIGIBLE BASED ON SUPPLIED INFORMATION: Yes

Amount: **$2,883.00**

Min GPA: **2.5**

Min SAT: **850**

Min ACT: **16**

Min Class Rank: **not available**

Number Available: **Limited**

Essay Required: **No**

Interview Required: **No**

Audition Required: **No**

Specified Majors: **all**

Scholarship Deadline: **2021-03-02**

For Minority: **No**

Renewable: **Yes**

State of Residence: **N/A**

Notes To Renew: **Maintain good academic standing. Enrolled full-time**

Notes: **For undergraduate students with family incomes up to $165,000 and a maximum annual household asset amount of $165,000. See website for additional information.**

Scholarship Link: **http://financialaid.ucdavis.edu/ class-scholarship.html**

UNIVERSITY OF CALIFORNIA DAVIS - BLUE AND GOLD LEADERSHIP SCHOLARSHIP

ELIGIBLE BASED ON SUPPLIED INFORMATION: Yes

Amount: **$5,000.00**

Min GPA: **3.5**

Min SAT: **850**

Min ACT: **16**

Min Class Rank: **not available**

Number Available: **Limited**

Essay Required: **Yes**

Interview Required: **Yes**

Audition Required: **No**

Specified Majors: **all**

Scholarship Deadline: **2021-05-01**

For Minority: **No**

Renewable: **Yes**

State of Residence: **N/A**

Notes To Renew: **Maintain good academic standing. Enrolled full-time**

Notes: **Applicant demonstrates leadership in extracurricular activities, community activities, employment, or personal situations. See website for additional information.**

Scholarship Link: **http://alumni.ucdavis.edu/about us/scholarships**

UNIVERSITY OF CALIFORNIA DAVIS - AGGIE GRANT PLAN

ELIGIBLE BASED ON SUPPLIED INFORMATION: Yes

Amount: **$3,158.00**

Min GPA: **2.5**

Min SAT: **850**

Min ACT: **16**

Min Class Rank: **not available**

Number Available: **Limited**

Essay Required: **No**

Interview Required: **No**

Audition Required: **No**

Specified Majors: **all**

Scholarship Deadline: **2021-03-02**

For Minority: **No**

Renewable: **Yes**

State of Residence: **N/A**

Notes To Renew: **Maintain good academic standing. Enrolled full-time**

Notes: **Your parent's assets (excluding personal residence) are less than $200,000. See website for additional information.**

Scholarship Link: **http://financialaid.ucdavis.edu/ grant.html**

UNIVERSITY OF CALIFORNIA DAVIS - PROVOST'S AWARD

ELIGIBLE BASED ON SUPPLIED INFORMATION: Yes

Amount: **$13,250.00**

Min GPA: **3**

Min SAT: **0**

Min ACT: **0**

Min Class Rank: **not available**

Number Available: **Limited**

Essay Required: **No**

Interview Required: **No**

Audition Required: **No**

Specified Majors: **all**

Scholarship Deadline: **2020-11-30**

For Minority: **No**

Renewable: **Yes**

State of Residence: **N/A**

Notes To Renew: **maintain GPA**

Notes: **For out-of-state students**

Scholarship Link: **https://financialaid.ucdavis.edu**

IV. Planning Strategies that Can Help Reduce College Costs

The following are specific **income and asset** planning strategies that may provide additional cash flow for college expenses, reduce college costs and, at the same time, potentially help you improve your overall retirement picture.

INCOME STRATEGIES:

☑ This strategy may be available because the student has earned income. If your child has earned income, a traditional IRA contribution can be used to reduce income not sheltered by the standard deduction (perhaps to zero), thereby creating a tax savings for the child and the IRA can be used penalty-free for qualified education expenses.
By investing $4,305 in a traditional IRA for the next 1 years till college the value of the IRA would be $4,305 given an 8% interest rate. This can be used for qualified college expenses with no penalty on the withdrawals (distributions will be taxed at student's tax rate). Contributions to the IRA may also create a tax savings for the student for any income not covered by the standard deduction.

☑ Since you are already contributing the maximum amount to your company retirement plan, consider a non-qualified retirement account such as annuity or cash value life insurance. The cash value can be borrowed on a tax-free (if the policy allows) or tax favored basis. Also, if not needed for college can be used for retirement.

WARNING: Life insurance should foremost be considered a vehicle to provide a death benefit but may also carry certain other cash value features.

☑ This strategy is available to you because you are not interested in setting up a trust. As an option to setting up trusts with high tax rates and loss of control, you could put funds in investments that are tax-exempt, tax-deferred, or that pay little or no current income, like growth stocks or mutual funds. You could then gift the investments to your child as needed for college expenses.

WARNING: Investing in mutual funds involve risks, including possible loss of principal. Investments in specialized industry sectors have additional risk, which are outlined in the prospectus.

☑ This strategy is a short-term strategy and is available based on the age of the student. Joint tenancy is an effective way to shift 50% of income and asset ownership to a child as a gifting strategy. Once the joint tenancy is established both tenants have an undivided equal interest in the property. As an example, if you wanted to shift 1/2 the income on $10,000 worth of 6% bonds, you can register the bonds in joint names with the child. Following this, the child will be taxed on his share of the interest income, or $300/year. If the child's taxable income was taxed at the 0% tax bracket, there may be no tax on the income.

WARNING: Check your state law requirements for joint tenancy requirements for persons other than spouses

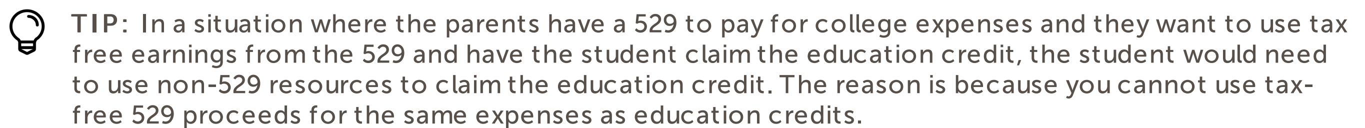
EDUCATION TAX CREDIT STRATEGIES – THE FOLLOWING STRATEGIES CAN BE EMPLOYED TO QUALIFY FOR EDUCATION TAX CREDITS OR INCREASE THE AMOUNT OF THE CREDIT.

☑

Comparison of Tax Benefits		
Cost of Attendance At University of California: Davis -- $33,836		
	American Opportunity Credit	Lifetime Learning Credit
Max Amount and Calculations	$2,500 tax credit per student	$2,000 tax credit per student
Qualified Expenses	Tuition, fees and course materials (textbooks)	Tuition and fees
2021 Income Phaseout Ranges	Single: $80,000 - $90,000 Joint:	Single: $58,000 - $68,000 Joint:

	$160,000 - $180,000	$116,000 - $136,000
Do you Qualify?	Yes	No
Estimated Tax Savings	$1,694	$0

- This strategy is available because your income is within the phase-out levels for the American Opportunity tax credit. If your AGI is too high to claim the education credit (American Opportunity Credit) you can elect not to claim your child as a dependent so that they can take the credit. The phase out levels for the credit begin for single taxpayers at $80000 and $160000 for married taxpayers. The student will be eligible to claim the education credit on his own tax return provided he pays at least the education expenses to claim the credit. Either the student pays the expenses from his own resources or the parent/payee could gift this amount to the student to be used to qualify for the credits. This would be $4,000 in qualifying expenses to maximize the credit. In order for this to make sense, the child would need sufficient income to benefit from the tax credit. In order to qualify for the **full credit**, the child needs a minimum of $2500 tax liability, which would require approximately $33,000 of AGI (in order to have $2,500 in tax due, after accounting for the standard deduction, would require this amount of AGI) and qualifying education expenses of $4,000 to gain the full $2500 education credit. Any earned income by the student that exceeds the standard deduction could be offset via the education credits



TIP: In a situation where the parents have a 529 to pay for college expenses and they want to use tax free earnings from the 529 and have the student claim the education credit, the student would need to use non-529 resources to claim the education credit. The reason is because you cannot use tax-free 529 proceeds for the same expenses as education credits.

- This strategy is included because the student in question is a senior in high school. To maximize the use of the American Opportunity Education Credit, consider prepaying or delaying the payments of qualified college expenses. If a student is not going to have enough qualified expenses in a particular year, they may choose to prepay some of the qualified expenses for the following year. Check with the college to determine if this is a viable option.

- This strategy is available because you can increase the amount of your education credit through a retirement account contribution. By contributing to your 401(k), you will reduce your AGI and qualify for a greater amount of the education tax credit. The results are more money in your retirement account, the tax savings on the contribution PLUS a greater tax credit that could be used for further retirement contributions.
  Given your AGI of $83,224, a maximum contribution of $19,500 into a 401(k) could increase the amount of your education credit by $806 for the year.

- This strategy is available because your AGI is between the phase out limits for the American Opportunity Credit and you have under-performing stocks (stocks that would yield a capital loss if sold). Consider the effect of selling stocks that would yield a capital loss and gifting the proceeds to the child to be used for college costs.

  a. By selling the undervalued stock you may be able to reduce your AGI by up to $3,000 in the tax year in which the capital loss is incurred. This will increase your eligibility for the education credit (American Opportunity/Hope Credit) by $750 making the maximum benefit $2,444. In addition, the tax savings on the capital loss may be as much as $939.

  b. The child can use the proceeds to help pay college costs

ASSET STRATEGIES:

- Since the timing of your death cannot usually be predicted, it is prudent to consider having an insurance policy to cover the projected costs of college. Often, a term policy is used to cover the projected costs of college. Evaluate your current life insurance status to determine if it is sufficient to cover projected college costs for this student (in addition to any other children). You have indicated you have the following coverage:

  a. Parent = $0

  b. Spouse = $0

  The projected four-year cost at the school selected is $145,803.

  Does your current coverage include sufficient amounts for education costs?

- [x] Life insurance can be used to fund your qualified and non-qualified retirement plans. The trustee of a retirement plan can invest in life insurance policies on your life. You could borrow from the policy for college costs.

  WARNING: Life insurance policies are subject to substantial fees and charges. Death benefit guarantees are subject to the claims-paying ability of the issuing life insurance company. Loans will reduce the policy's death benefit and cash surrender value, and have tax consequences if the policy lapses. Life insurance should foremost be considered a vehicle to provide a death benefit but may also carry certain other cash value features.

- [x] This strategy is available because you have savings in money market/CD's/savings. Consider moving the amount listed for money market/savings/CD's into a tax incentive asset - something that will not generate annual taxable interest.
  This could create a tax savings of $15 annually assuming a 1.0% rate of return.

GRANDPARENT STRATEGIES – THE FOLLOWING STRATEGIES CAN BE EMPLOYED BY GRANDPARENTS WHO ARE INTERESTED IN HELPING PAY FOR COLLEGE.

- [x] Gifts you or a relative (grandparents, aunts and uncles or anyone else) make directly to an educational institution (either elementary and high school or college) for your child's tuition will not reduce the 2020 $15000 gift tax exclusion for that child. The gifts must be made directly to the educational institution. The tuition "gifts" can be unlimited, but must be made directly to the school, not to the student or the student's family. If the funds are distributed elsewhere than the school, gift tax may be due. The gift may be given only for tuition. Any gift given to help pay for room and board, transportation or entertainment will count against the gift exclusion. This can be an excellent way to reduce the value of your estate.
  If the parents gift $5,000/year directly to the college, this could save $1,565 per year and $6,260 over four years.

V. Savings Strategies

STRATEGIES FOR PAYING THE COLLEGE BILL:

Since you are not likely a candidate for financial aid, you will be responsible for funding the total cost of attendance at University of California: Davis. The strategies in this plan may effectively decrease this cost, along with any merit based scholarships, tuition discounts, etc.

The following savings and investment types were listed on the data form as allocated for college:

Growing these savings for the next 1 years till your child begins college yields approximately $0. The projected four-year cost of attendance at University of California: Davis using a 3% annual inflation rate is: $145,803.

If there is a shortfall between your available college funds and your **total contribution** consider the following savings and funding strategies:

SAVINGS STRATEGIES:

The following savings strategies are based on the lead-time available to you and your particular investment philosophy. The investment philosophy you have chosen is **Conservative** . **Consider the following investment options with the $300 you indicated were available for college costs.**

- This is a short-term strategy. **Cash equivalents** like certificates-of-deposits, treasury-bills and money market instruments are low-risk investments that can be used for short-term college financial planning needs.

  TIP: Rating of Cash as a college/retirement investment

CATEGORY	RATING
RATE OF RETURN VS COLLEGE INFLATION	POOR
TAX FAVORED ACCESS FOR COLLEGE	POOR
TAX FAVORED ACCESS FOR RETIREMENT	POOR
USE FOR COLLEGE AND RETIREMENT	POOR

- This is a short-term or long-term strategy. **Traditional IRAs** are tax-deferred accounts with tax-deductible contributions subject to several restrictions. Since 1997, penalty-free withdrawals from IRAs are allowed to pay for "qualified" undergraduate or graduate higher education expenses. The taxpayer will owe federal income tax on the amount withdrawn, but will not be subject to the 10% early withdrawal penalty.

  TIP: An IRA as a college savings vehicle would be more appropriate for a student that has earned income than for a parent using it primarily as a retirement savings plan. If the student doesn't use the IRA for college costs it can be used for other purposes such as first time home purchase or retirement savings

  TIP: Rating of Traditional IRA as a college/retirement investment

CATEGORY	RATING
RATE OF RETURN VS COLLEGE INFLATION	EXCELLENT
TAX FAVORED ACCESS FOR COLLEGE	FAIR
TAX FAVORED ACCESS FOR RETIREMENT	FAIR
USE FOR COLLEGE AND RETIREMENT	FAIR

This is a short-term or long-term strategy. **Retirement accounts** are company-sponsored tax-deferred programs designed for long-term investments. Most plans allow tax-deductible contributions with employer matching options. If you are considering using your retirement account to help pay education expenses, consider borrowing from it instead of a "hardship" withdrawal. Generally, you can borrow up to $50,000 or half of the account balance - whichever is less - and pay back the loan over five years. Interest rates vary, but are typically the prime rate plus one percentage point.

WARNING: Although retirement accounts are often used as a resource to help fund college expenses, either through withdrawals or borrowing, they should not be viewed as a college savings strategy. Retirement savings should take priority over college savings and retirement accounts should be fully funded before contributions to a college savings plans specifically designed for college funding, such as a 529 or Coverdell Education Savings Account.

TIP: Rating of Retirement Accounts as a college/retirement investment

CATEGORY	RATING
RATE OF RETURN VS COLLEGE INFLATION	GOOD
TAX FAVORED ACCESS FOR COLLEGE	POOR
TAX FAVORED ACCESS FOR RETIREMENT	FAIR
USE FOR COLLEGE AND RETIREMENT (ONLY IF BORROWING FROM ACCOUNT)	FAIR

This is a long-term strategy. **529 College Savings Plans** are tax-deferred trust accounts that are used to pay for qualified education expenses. This includes tuition, fees, books, supplies, equipment and room and board. 529 plan benefits include:
Income Tax Advantages

1. Tax-deferred growth of the investment
2. Withdrawals are tax-free if they are used for qualified education expenses
3. Contributions are treated as gifts and are not considered gross income to the beneficiary
4. The grantor and beneficiary are not subject to tax on income earned during the accumulation period
5. Distributions are excluded from income tax if they are rolled over within 60 days to another 529 or if the beneficiary of the 529 changes to another family member.

Income Tax Disadvantages
There is a 10% penalty on nonqualified distributions; that is, distributions not used for qualified education expenses. In addition, the withdrawal will be taxed as income to the account owner.

Estate and Gift Tax Benefits

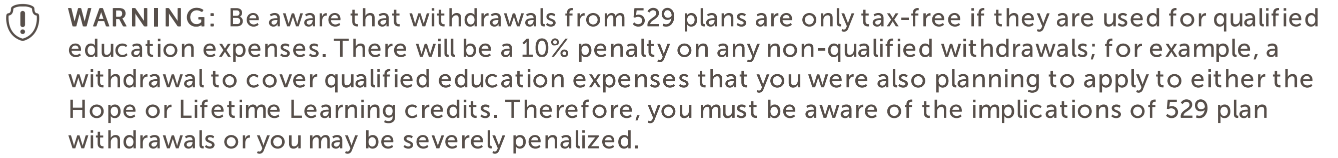
1. The money comes out of the donor's taxable estate and the gift qualifies for the annual gift tax exclusion.
2. In 2020, up to $150,000 (for married filing jointly or $75,000 for single filing individual) can be contributed to an account tax-free, assuming no other gifts are made during the five-year period.

Availability and Flexibility

1. There is no income phase-out level for owning a 529 plan. Therefore, high-income earners can participate when other options are not available (i.e. Roth IRA, EE Bonds, etc.).
2. The owner of the plan maintains control of the account. The owner can change the beneficiary of the account and even refund the account (possibly subject to a penalty).

Maximum Contribution Allowed
Each state determines the maximum allowable contribution.

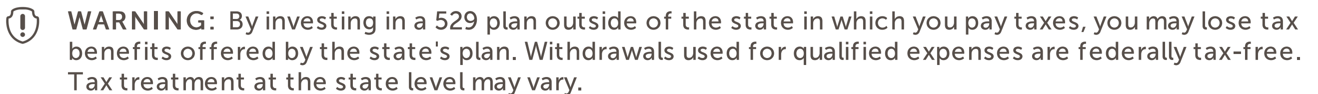
Interaction with Hope and American Opportunity Credit
A taxpayer may claim a American Opportunity Credit or Lifetime Learning credit and take a tax-free distribution from a 529 plan as long as the credits and the 529 plan distributions are not used for the same education expenses.



WARNING: Be aware that withdrawals from 529 plans are only tax-free if they are used for qualified education expenses. There will be a 10% penalty on any non-qualified withdrawals; for example, a withdrawal to cover qualified education expenses that you were also planning to apply to either the Hope or Lifetime Learning credits. Therefore, you must be aware of the implications of 529 plan withdrawals or you may be severely penalized.

TIP: Rating of 529 Savings Plan as a college/retirement investment

CATEGORY	RATING
RATE OF RETURN VS COLLEGE INFLATION	GOOD
TAX FAVORED ACCESS FOR COLLEGE	EXCELLENT
TAX FAVORED ACCESS FOR RETIREMENT	POOR
USE FOR COLLEGE AND RETIREMENT	POOR



WARNING: By investing in a 529 plan outside of the state in which you pay taxes, you may lose tax benefits offered by the state's plan. Withdrawals used for qualified expenses are federally tax-free. Tax treatment at the state level may vary.

VI. Using a 529 Savings Plan to Save and Pay for College Costs

The objectives of this model are to identify:

1. Strategies for saving and paying college expenses.
2. Potential surpluses of funds that could be reallocated.
3. Strategies for covering possible shortfalls in resources available for college.
4. Opportunities to maintain or increase retirement contributions.
5. Tax savings opportunities for the family.
6. Strategies for maximizing education-related tax credits.

SOURCES FOR CONTRIBUTIONS INTO A COLLEGE SAVINGS PLAN

Consider the following sources for contributions into a 529-college savings plan:

No data to display

You indicated that you could allocate $300/month for college costs. Consider contributing this amount into a 529 college savings plan.

PROJECTED VALUE OF PARENTS' AND STUDENT'S COLLEGE SAVINGS

Student resources available for college expenses: $0

Parent resources available for college - excluding amounts reallocated for a lump-sum contribution to a 529 or other college investment: $0

Projected value of the parents' 529 plan and non-529 investments using monthly college allocation and lump sum contributions = $3,600

PLANNING FOR EDUCATION CREDITS

Note that if you are eligible for the American Opportunity/Hope education credit, you can claim the credits AND use 529 (or a CESA) proceeds for the same qualified expenses, **but** you will pay income tax on some portion of the 529 proceeds that were applied to the same expenses for which you claimed the credit. A solution is to use non-529 proceeds for these expenses. The full American Opportunity credit consumes $4,000 in tuition and fees. You will need approximately $16,000 in non-529 proceeds to be able to claim the full credit over four years. Since the parent and student combined will likely have more than $16,000 in non-529 college savings assets, these can be used for the credits. Since the parents and student combined will not likely have more than sufficient non-529 college savings assets, consider having the parent or the student allocate a greater percentage of college savings to non-529 plan contributions that could be used for the credits. Attempt to minimize tax associated with liquidating an investment to be used for qualifying expenses.
Examples of sources that would be good candidates include tax-efficient mutual fund, borrowing from a cash value insurance policy or using loans - like a Stafford or PLUS for these expenses. Any tax on liquidating investments in order to maximize the education credit will likely be outweighed by the tax savings due to the tax credit. Using low interest loans (student loan, borrowing against an insurance policy) to pay qualifying expenses (you would still be eligible for the credit) and then retiring the debt after college allows investments to grow for longer period of time.

Student's non-529 resources = $0

Parent's non-529 resources = $0

STRATEGY - TAX DEPENDENCY STATUS OF STUDENT

The analysis reveals that there would likely be **no tax benefit** to making the child tax independent of the parents.

MISCELLANEOUS NOTES:

Since 529 proceeds must be used for qualified education expenses to avoid penalties on withdrawals and since there are no other siblings, consider an alternative to the 529 plan so that if the child decides not to attend college, or does not graduate, the funds can be used for other purposes, such as retirement savings, withthout incurring penalties on withdrawals.

The projected cost of college is likely greater than the amount that will be available based on projected amounts of available sources for parent and student. Consider gifting to the student after college to help student pay off any loans incurred to cover shortfalls. Other possibilities include increased monthly allocation or, if the student is employed by parent in a business, increase wages.

The investment section of the Solutions Plan describes in detail the pros/cons of options other than a 529 savings plan. Taxable earnings from a mutual fund can potentially be reduced to 0 through the education tax credits either by the parents claiming them (if within the phase-out limits) or by making the child independent of the parents for tax purposes and having them claim the credits. Gifting the funds to the child and having the child use the funds for providing over 50% of their support can do this. The child can then claim the education credit and possibly offset all the tax due on the proceeds.

ASSUMPTIONS USED IN THIS MODEL

1. All of the student's resources are available for college costs.
2. Only student wages available for college are those allocated in the model for "college savings."
3. Investments are grown only up until the beginning of college and then are liquidated over the four years of college.
4. A loan on the equity in the home is a 10-year loan with zero points.
5. Any stocks liquidated for the purpose of reallocating to a 529 or other savings plan will yield a tax deduction of $3,000.

INTEREST RATE ASSUMPTIONS

1. College Inflation Rate (Annual) - 3%
2. 529 - 1%
3. Federal Income Tax Rate - 22%
4. State Income Tax Rate - 9%

RESULTS OF IMPLEMENTING THE ABOVE STRATEGIES

The projected cost of attending University of California: Davis is $145,804.
The total amount available for college using this model is $3,600 which is comprised of the following:

- Withdrawals from the parents 529 Plan and any 529 overflow account = $3,600

Wages paid to student to be used for college = $0
Amount Contributed to Roth by student and available tax-free for college = $0
Lump sum amount into 529 plan = $0
Parent's available monthly college allocation = $300

Monthly allocation required by this model = $300
Parent's 529 funds and any 529 overflow account funds = $3,600
Student's tax-free 529 funds available for college = $0
Tax paid by child = $0
Total funds available for college = $3,600
Total tax savings for family = $0

Breakdown of total tax savings:

Tax savings resulting from 529 lump sum contribution:

Pre-College Years:

College Years:

- Tax savings on 529 earnings (Parent) = $0

VII. Strategies for Covering Shortfalls

LOAN STRATEGIES:

Reasons to Consider College Loans

Following are reasons, beyond necessity, for a family that may not qualify for financial aid to consider using loans to pay for college:

1. **You Expect Your Child To Have Some Financial Responsibility For Their Own Education -** When a student has a vested interest financially in their education they tend to be more focused about obtaining a degree - sooner than later!
2. **Your Assets Are Invested In High-Yield Investments -** If your family does not qualify for financial aid, here are some reasons why you may use loans instead of liquidating the assets:
   - There may be a significant spread between the interest earned on the investment and cost of the loan. For example, a 2% spread on $40,000 is equal to $800, which yields the same benefit as an $800 scholarship.
   - The cost of liquidating the investment (capital gains, income tax) may be high
   - If your investments are growing on a tax deferred basis, the longer they remain intact, the greater the compounding effect of the interest.
3. **Potential Tax Deduction -** College loan interest is deductible, up to $2,500 annually, within certain income phase-out limits. The income phase-out limit is $70000 to $85000 in Adjusted Gross Income (AGI) for single taxpayers and $14000 to $170000 for married taxpayers.

ADVANTAGES/DISADVANTAGES OF VARIOUS LOANS

This section highlights advantages and disadvantages of various loan strategies based on your responses on the dataform. They are ranked in descending order based on the pros/cons of each as well as your particular situation.

Stafford Loans

Stafford loans are fixed rate and are not based on financial need. Therefore, the student can obtain this loan, regardless of whether the family qualifies for financial aid. The current Stafford loan interest rate is fixed at 2.75%. These loans are taken out in the student's name and therefore, the student will be entitled to the student loan interest tax deduction.

The amounts that can be borrowed by the student are as follows:

1. Freshman year - $5,500

2. Sophomore year - $6,500

3. Junior - 5th year - $7,500

The total undergraduate amount of Unsubsidized Stafford loans that a dependent student can have is $31,000.

The repayment of the Unsubsidized Stafford loan interest begins within 60 days after the final loan disbursement. However this interest can be deferred. The principal repayment does not start until six months after the student graduates, leaves college, or drops below half-time enrollment.

TIP: A Stafford Loan usually offers more benefits for the student than a PLUS loan taken out by the parents and therefore should be considered before a PLUS loan. Here are a couple of reasons:

1. The interest rate on a Stafford Loan is lower than the interest rate on a PLUS loan.
2. Once the student graduates and is no longer a dependent, he can likely claim student loan interest deduction - up to a maximum of $2,500 for each of the 5 years the interest is paid - since his income will likely be below the phase out level. These tax savings can help pay back the loan.

Federal PLUS Loans

Federal PLUS (Parents' Loans for Undergraduate Students) loans are not need-based loans. Therefore, a parent can obtain this type of loan even if the student has no financial need. The PLUS loan interest rate is 5.30%. These loans are taken out in the parent's name. The parents can claim the student loan interest deduction, if their income is within the phase-out limits.

The maximum amount that can be borrowed by the parent is the cost of attendance at the student's college, less any tax-free scholarships.

EXAMPLE: If the cost of attendance at the student's college was $25,000 per year the parents could borrow $25,000 in PLUS loans each year. PLUS loans are only for undergraduate college expenses and do not cover graduate school expenses.

PLUS loans are signature loans (no collateral required). Only one parent must sign the loan application. If the signatory parent dies or becomes permanently disabled during the repayment period, the remaining loan principal balance is forgiven.

Repayment of a PLUS loan begins within 60 days after the final loan disbursement for the academic year. However, if the signatory parent is enrolled in college, as an undergraduate, on a half-time basis (six credits) the repayment may be deferred. PLUS loans can be consolidated and repaid over a 30-year period.

Retirement Account Loans

The benefits of borrowing from retirement accounts are reasonable interest rates, repayment terms, and ease of obtaining the loan. However, if these loans are not repaid within a certain period of time, usually five years, the outstanding principal balance will become taxable income and subject to a 10% penalty if the borrower is under age 59 1/2.

WARNING: If a parent loses his job, or changes jobs, the outstanding balance must be immediately repaid on a retirement loan, or it will become taxable income, subject to ordinary taxes plus penalties. Also, even though the retirement fund is earning interest on the college loan, it is foregoing the higher rate of return it was earning in the investment.

Some retirement plans may disallow distributions before retirement. However, hardship distributions from 401(k) plans (subject to the 10% penalty) are allowed to meet certain college expenses.

WARNING: Due to the significant limitations and penalties, borrowing from your retirement funds to pay for college should generally be avoided. In addition, if you borrow from your retirement account for college expenses you will not be able to deduct the interest as student loan interest on your tax return.

FUNDING STRATEGIES:

Consider the following additional funding options if your college savings and investments will not cover all your college costs.

This strategy is available because either you or your spouse has been divorced.

- The deduction for alimony creates an opportunity to shift income from a higher to a lower tax bracket spouse. Additional payments that can be considered alimony are medical insurance and other expenditures, such as mortgage payments, real estate taxes, insurance, utilities, life insurance premiums, and college expenses, made on behalf of a former spouse under a divorce decree or separation agreement.
- A qualified domestic relation's order is a judgment, decree, or court order that provides your ex-spouse with the right to receive benefits from your qualified retirement plan or tax-sheltered annuity. Since the benefits are included in the income of your ex-spouse, the net effect is that the retirement income is shifted from your higher tax bracket to your ex-spouse's lower bracket. The benefit can then help fund college expenses.
- If your ex-spouse is responsible for future college costs and has a retirement plan, you may consider obtaining a qualified domestic relations order to insure the financial obligation will be met. You would receive nothing from the retirement plan unless the ex-spouse defaults on the financial obligations.
- In a divorce scenario a property settlement can be structured to transfer highly appreciated assets to the spouse who is in a lower tax bracket. When the assets are sold for college funding purposes, the lower tax liability will allow more funds to be available for college.

This strategy is available because you are divorced. If you are a single parent with child custody, consider

filing as head of household. If your itemized deductions do not exceed your standard deduction, the deduction amount is increased from single to head of household from $6,350 to $9,350 for an additional $3,000 in deductions. The additional tax savings can help pay college costs.

VIII. Assumptions Made in Creating This Report

The following assumptions were used in the processing, analysis and generation of your report:

1. The student will be in college full time.
2. The EFC calculated is based on a dependent student.