Welcome to our workshop on college funding. We’re excited to see you here today. You should have been given some materials as you entered. I also have pencils (or pens) available if you need them.

Before we start the main part of our presentation, let me take a minute or two to tell you what we hope to accomplish over the course of the next hour or so.
We have three main workshop objectives.

First, we’d like to introduce ourselves and our company. (Give a brief personal background, describe your organization, and give its location.) We use workshops like this one to introduce ourselves and to develop strong working relationships with people like you.

Second, we want to offer some education about the benefits of financial planning. We’ll also discuss some techniques that can help you reach your goals.

And third, we’d like to clearly illustrate the advantages of working with a company like ours.
Our commitment to the community extends beyond simply offering financial services. We are committed to helping people evaluate their financial situations and giving them the tools to help them make informed decisions.

As part of that commitment, we use workshops like this one to provide individuals with sound financial information. This will help you identify your goals and make wise decisions to improve your financial situation.

We follow up this session with a meeting in our offices. This is a complimentary consultation that we offer to everyone who attends our workshops. During that consultation, we can discuss any questions you have as a result of today's workshop. If you prefer, we can use that time to examine your specific situation and begin the process of helping you formulate a financial strategy that will suit your needs.

We know that we'll establish a working relationship with you only when you're confident we can be of service to you. We want you to understand your options and to know how you may benefit from our services.

The information provided in this presentation is not written or intended as tax, legal, investment, or retirement advice or recommendations, and it may not be relied on for the purpose of avoiding any federal tax penalties. Individuals are encouraged to seek advice from an independent professional advisor.
We’ve found that people are more likely to remember something they act on rather than something they only hear about. That’s why we designed this workbook so you can apply what you learn to your situation. In it you’ll find helpful exercises, worksheets, and self-analysis quizzes that reinforce the workshop’s major points and will be a valuable resource for you.

As we cover the material, feel free to underline or circle items you may have questions about. That way, they’ll be fresh in your mind during the complimentary consultation.

Inside your workbook, you’ll find an evaluation form just like this one. *(Pull out an evaluation form for your workshop participants to see.)*

At the end of the workshop, you’ll use this form to tell us whether you’re interested in taking advantage of the complimentary consultation.

We’d like to make you two promises concerning this form. First, if you check “Yes, I am interested in scheduling a complimentary consultation,” we’ll call you tomorrow and set up an appointment. Second, if you check “No, I am not interested in scheduling an appointment at this time,” we won’t call you or contact you directly after the workshop.

In exchange for these two promises to you, please promise that you will fill out this form. Many of our workshop attendees do come in for a consultation, so we’ve set aside time just to meet with you.

When you do come to our office, feel free to leave your checkbook at home. I’m very interested in developing working relationships with many of you, but that decision is yours.
Whether your child plans to attend vocational school, spend four years at a public or private college, or go beyond four years to earn a master’s degree, preparing now for the cost of your child’s education is a smart financial move.

Many people don’t realize that the average four-year cost of in-state tuition, fees, room, and board at a public four-year college or university is approaching $90,000. That’s right — almost $90,000! And that doesn’t include costs for books, personal expenses, and transportation.

If college costs alarm you, it’s important to keep in mind that people who learn more, earn more. According to the Bureau of Labor Statistics, people with a bachelor’s degree earn about 65 percent more, on average, than those with only a high school diploma. So you might consider the high cost of college as an investment in your children’s future.

To that end, how much progress have you made to reach your college funding goal? Are you just starting out? Have you been saving for several years? Or are you just thinking about when to begin and how much you’ll need to save?

Sources: 1) College Board (four-year costs are based on 2018–2019 average annual cost of tuition, fees, room, and board at a four-year public college or university with 5 percent college inflation); 2) U.S. Bureau of Labor Statistics, 2018
Regardless of where you are in the college savings process, there are effective strategies that can help you succeed.

During this presentation, we’re going to focus on the steps to help fund a college education for your children or grandchildren.

We’ll start by estimating the costs. If you have a goal to work toward, you can be more successful in reaching it.

Next, we’ll review various college savings options that you can use when establishing a college fund.

Then we’ll evaluate additional funding sources — some of which you may already be aware, as well as others you might not have considered.
As you estimate the cost of a child’s higher education, there are several considerations to keep in mind.

First, look at the current costs. Costs for tuition, room and board, and other expenses will vary based on the type of school your child will attend and the number of years your child will be in school. Some programs require one or two years of education, whereas a bachelor’s degree requires four or more years. Your child may decide to attend a private college or university, which is generally more expensive than a public college. The cost may also depend on whether the student attends an in-state school or an out-of-state school.

When you know how much college costs now, you can estimate how much it might cost when your child is ready for college.

Another important factor is how much you expect to contribute — this is your college savings goal. You may want to pay for half of the costs yourself and have the student responsible for the rest. You may want to pay all the costs, or you might prefer to contribute a certain percentage of the total.

Finally, you need to consider your timeline — not just how many years you have available to accumulate college funds, but also the span over which you will need funds for college. You may have five years before your oldest attends college and 10 years before your youngest attends. You may even have more than one student in college at the same time.
The current average annual cost for public colleges and universities for the 2018–2019 academic year is $21,370. This number is for state residents; out-of-state costs are significantly higher.

Private schools are even more expensive. The average annual cost for private colleges and universities is $48,510. Many private colleges cost considerably more.

Of course, the four-year costs shown here will probably be even higher because they don't reflect annual college inflation!

(Note to presenter: You should know the current costs of the major colleges and universities in your area and state and be able to compare them to these numbers when appropriate.)

These figures include tuition, fees, room, and board. They do not include books and supplies, transportation, insurance, and any other indirect costs.

Source: Trends in College Pricing 2018, College Board
As I just mentioned, the future cost of college is an important factor to consider when determining how much you will need to save for college.

Many people don’t realize the impact that inflation has had on college costs. Over the past 10 years, the inflation rate of college tuition has been double the rate of general inflation, as measured by the Consumer Price Index.

The cost of attending a four-year public college in the 2018–2019 academic year increased 2.8 percent over the previous year; this compares with a 3.2 percent annual increase for a four-year private college.

If college inflation grew by a rate of 5 percent each year, the average annual cost of a public college could reach $27,274 in five years, and the average annual cost of a private college could reach $61,912.

Looking 15 years out and using the same assumptions, the average annual cost for a public college could be $44,423; for a private college, it could be $100,847.

Source: Trends in College Pricing 2018, College Board
Now that you have an understanding of the current and future costs of college, the question you need to answer is: What is your savings goal?

Are you hoping to fund 100 percent of your child’s college education? Or do you expect to pay a percentage of the costs, such as 40 percent, and have your child work part-time or apply for a student loan to help pay for the balance?

On page 5 in your workbook, you can write down your college savings contribution goal. Place a check mark next to your target: 25 percent, 50 percent, 75 percent, 100 percent (or other), and fill in other sources, if applicable.

Not all parents expect to pay the entire amount of their children’s higher-education costs. Some are hoping that their student will win a scholarship or receive a grant. Others plan to apply for financial aid or anticipate that their children will use student loans to pay a portion of the cost.

Once you have a clear picture of what you are trying to achieve, you will be able to determine how much you need to save. This, in turn, will help determine the appropriate savings and investment strategy for your situation.
Have you determined your timeline? How many years will you be paying for college?

Do you have four years before you will need money for your oldest child’s first-year tuition? Will he or she graduate in four years, or will it take longer? Students who change majors or take additional electives may take five or six years to graduate. And some college graduates go on to get a master’s degree. At any rate, it’s helpful to consider these possibilities.

If you have more than one child, it’s possible that you will have two or more children in college at the same time. In this case, you may be paying for college over a much longer period.

It’s important to factor in your timeline and cumulative costs so that you have sufficient funds to contribute toward each child’s higher-education needs.
The College Cost Worksheet on page 6 can be used to estimate the future cost of sending your children to college for four years and to help you calculate how much you need to save each year.

(Note to presenter: Pause to give participants sufficient time to locate the workbook exercise, then walk through the hypothetical example with attendees.)

Let's go through a hypothetical example to see how the worksheet works. We'll assume that a couple's child, Carol, is 8 years old and will start college in 10 years.

The current annual cost of the college the parents would like Carol to attend is $22,000. To determine the potential future cost, look at the table below on the left side. The estimated future cost factor for an eight-year-old is 7.021. (The future cost factor is based on a 5 percent inflation rate). Multiplying the current annual cost for the college Carol might attend ($22,000) by the estimated future cost factor (7.021) results in an estimated future cost of $154,462 for four years of college.

We enter the $154,462 estimated college cost in the first space below and look up the savings factor for an eight-year-old in the Savings Factor table. (The savings factor is based on a hypothetical 5 percent annual return.) Multiplying the 0.080 savings factor for an eight-year-old by the family's estimated future college cost ($154,462) equals $12,357, which is the amount the couple must save annually until Carol enters college.

This hypothetical example is used for illustrative purposes only. Actual college costs, inflation rates, and investment performance will vary.
Once you've calculated the potential cost of college, you can figure out where you stand and then take action to start saving and building college funding into your overall financial program.

If I can impress upon you one thing during this presentation, it is the importance of acting now.

Nearly two-thirds of parents with a child younger than 18 who might attend college someday are saving or planning for how to meet college costs.

Parents who are preparing for future college costs are much more likely to feel confident that they will be able to meet the costs than are parents who are not saving or preparing (73% versus 27%)

Source: How America Saves for College 2018, Sallie Mae
So let’s turn our attention now to establishing a college fund.

We’ll look at several college funding programs and discuss investment options for the funds you save in these accounts.
Personal accumulation is the most common and reliable way to save for college.

To succeed at accumulating sufficient funds to pay college costs, you'll need discipline and commitment. You may decide to set aside a specific dollar amount or percentage of your income each month, quarter, or year to reach your goal.

If you make the commitment to save on a regular basis, you'll find that your savings can add up significantly over time.
These are the primary financial vehicles that the typical American family uses to pay for their children’s college educations.

As you can see, the most commonly used vehicles are general savings/checking accounts and 529 college savings plans, followed by investments (such as stocks and mutual funds) and retirement savings.

Source: *How America Saves for College 2018*, Sallie Mae
Your own college funding options might include tax-advantaged accounts such as a 529 plan, a Coverdell Education Savings Account, and a Roth IRA, as well as taxable accounts. Tax-advantaged accounts feature withdrawals that are free of federal income tax when used for qualified education expenses. We'll focus first on 529 plans.
A 529 plan is a state-sponsored or college-sponsored program designed to help families save for future higher-education costs. The name of the program comes from the section of the Internal Revenue Code that enabled states to establish these plans.

It's up to each state to decide whether it will offer a 529 plan (or possibly more than one) and what it will look like. Most states offer at least one version of the plan. Each 529 plan has its own rules and restrictions, which can change at any time.

(Note to presenter: Share whether the state in which you are living offers a 529 plan and provide details, if possible.)

Some 529 plans are set up as **college savings plans** and some are structured as **prepaid tuition plans**. College savings plans are individual investment-type accounts, similar to 401(k) plans, that are open to anyone and allow funds to be used for all qualified education expenses (including room and board) at any accredited college in the United States or abroad. By contrast, prepaid tuition plans let families lock in today's tuition rates for future tuition costs at in-state public colleges and universities, and participation is typically limited to state residents. College savings plans are much more widely used.

As with other investments, there are generally fees and expenses associated with participation in a 529 savings plan. There is also the risk that the investments may lose money or not perform well enough to cover college costs as anticipated. The tax implications of a 529 plan should be discussed with your legal and/or tax advisors because they can vary significantly from state to state. Most states offer their own 529 programs, which may provide advantages and benefits exclusively for their residents and taxpayers. These other state benefits may include financial aid, scholarship funds, and protection from creditors.

Before investing in a 529 savings plan, please consider the investment objectives, risks, charges, and expenses carefully. The official disclosure statements and applicable prospectuses, which contain this and other information about the investment options and underlying investments, can be obtained by contacting your financial professional. You should read this material carefully before investing.
A 529 college savings plan has several advantages, as well as some limitations.

Funds in a 529 plan accumulate tax deferred, as is the case with retirement plans such as IRAs and 401(k) plans, which means that money you set aside in a 529 plan, as well as any earnings, will be untaxed for as long as your money stays in the plan. Later, 529 plan withdrawals used for qualified education expenses are completely free of federal income tax.

529 plans have high lifetime contribution limits — typically $300,000 and up. In addition, there are no income or age restrictions for donors.

You also maintain control over the disbursement of funds and manage how they will be used. In fact, if the original beneficiary of a 529 plan doesn’t attend college or need the funds, you can change the fund’s beneficiary to another qualified family member (someone within the immediate family of the original beneficiary).

Under special rules unique to 529 plans, you can make a lump-sum gift to a 529 plan of up to five times the annual gift tax exclusion amount — $75,000 for individual gifts and $150,000 for joint gifts in 2019 — without triggering gift tax. You need to make a special election on your tax return to treat the gift as if it were made in equal installments over a five-year period.

One of the disadvantages of 529 plans is that you are limited to the investment portfolios offered by the plan. Most 529 plans offer a range of portfolios that typically consist of groups of mutual funds and vary in their amount of risk. As part of this offering, many plans offer age-based portfolios in which the underlying investments become more conservative as the beneficiary grows older. If you’re unhappy with the performance of the investment portfolios you’ve chosen, you can generally change the investment option on your existing contributions only twice per year.

Typically, the earnings portion of nonqualified withdrawals is subject to federal and state income taxes and a 10 percent income tax penalty.

And 529 plans are subject to market risk. Your investments may lose money or may not perform well enough to cover college costs as anticipated. There are generally fees and expenses associated with participation in a 529 college savings plan. When comparing plans, be sure to keep an eye on the flexibility of the plan, as well as the fees.
529 plans offer some other advantages.

They offer professional management. Some states use their own investment personnel to manage the assets in their 529 plans, whereas other states contract with professional investment management companies to oversee investments and record-keeping.

529 plans offer a low entry cost. It is common for accounts to have a $250 minimum initial investment. Many state programs require no initial contribution at all when a donor establishes a payroll deduction program to fund a 529 plan.

You can even roll over your account to a different 529 plan once every 12 months (subject to plan rules) without triggering any taxes or penalties.

And some states that offer their own 529 plans may provide advantages and benefits for state residents and taxpayers. This might include financial aid, scholarship funds, and protection from creditors.

Before investing in a 529 plan, please consider the investment objectives, risks, charges, and expenses carefully. The official disclosure statements and applicable prospectuses, which contain this and other information about the investment options and underlying investments, can be obtained by contacting your financial professional. You should read this material carefully before investing.
What Can a 529 Plan Pay For?

- Tuition and fees
- Room and board
- Supplies
- Computer equipment

The money saved in a 529 plan can be used to pay qualified higher-education expenses — tuition, fees, room and board, supplies, and computer equipment — at any accredited post-secondary school that is eligible for U.S. Department of Education student aid programs under Title IV of the Higher Education Act. For the most part, this list includes colleges, universities, community colleges, and certain technical schools in the United States and abroad.

In addition, 529 plans can now be used to pay K-12 expenses, but tax-free withdrawals from a 529 plan for K-12 expenses are limited to $10,000 per year.
The Coverdell Education Savings Account, or ESA for short, has several advantages, as well as some limitations.

Contributions and earnings accumulate tax deferred, and withdrawals are free of federal income tax as long as the amount does not exceed the qualified education expenses of the eligible student during the year.

In addition to higher-education expenses, qualified expenses from a Coverdell ESA include elementary and secondary school tuition and room & board.

Another advantage is that you have much more investment flexibility with a Coverdell ESA than you do with a 529 college savings plan. You can choose your own investments, just as you can with an IRA.

However, annual contributions to a Coverdell ESA are much lower than they are with a 529 plan. The annual contribution cap is $2,000 per child under age 18. And the maximum annual contribution limit applies regardless of how many accounts have been set up for one child.

The amount that can be contributed to an ESA gradually phases out for donors with higher incomes. In 2019, the maximum $2,000 annual contribution is reduced for single filers with modified adjusted gross incomes (AGIs) between $95,000 and $110,000, and for married joint filers with modified AGIs between $190,000 and $220,000.

If a Coverdell account has a balance at the time the recipient reaches age 30 and the money is not rolled over to another qualified family member, the money must be withdrawn and distributed to the recipient (or to the recipient’s estate if he or she dies prior to age 30). At that time, the beneficiary will be taxed on the remaining earnings and a 10 percent penalty tax will be applied. The 30-year age limit does not apply to beneficiaries with special needs.

As with other investments, there are generally fees and expenses associated with participation in a Coverdell ESA. There is also the risk that the plan investments may lose money or not perform well enough to cover college costs as anticipated. Nonqualified withdrawals are subject to federal and state income taxes and a 10 percent income tax penalty.

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Coverdell Education Savings Account

**Advantages**
- Tax-deferred accumulation
- Withdrawals free of federal tax when used for qualified higher-education expenses
- Qualified expenses also include elementary and secondary school tuition and room & board
- More investment flexibility than a 529 plan

**Limitations**
- Low annual contribution cap: Up to $2,000 per child under age 18
- Income eligibility phaseout limits
- Investments are subject to market risk
Most people think of a Roth IRA as a powerful retirement savings vehicle, but it can also be a helpful way to save for college. And it offers some advantages worth considering.

Before we get into the details, let me say first that when colleges determine need-based financial aid, they consider a family’s expected family contribution (EFC). Although most assets count toward the EFC, retirement accounts do not. Thus, saving in a Roth IRA should not affect the amount of aid your student receives. However, any withdrawals will count toward your income for financial aid purposes. For that reason, you might consider waiting until after January 1 of your child’s second year of college to withdraw funds from a Roth.

Because contributions to a Roth IRA are made on an after-tax basis, they can be withdrawn at any time, for any purpose, without incurring any federal income tax liability or penalties.

Another benefit is that withdrawals of Roth IRA earnings used for qualified higher-education expenses avoid the 10 percent early distribution penalty that normally applies to early withdrawals by people younger than 59½.

Tapping retirement funds to pay for college is generally not a recommended strategy, so this approach is intended to save money targeted specifically for college. If you do use a Roth IRA to accumulate college funds, consider saving for retirement in other tax-deferred accounts, such as a 401(k).

You must have earned income (from wages) to contribute to a Roth IRA. In 2019, income eligibility phaseouts start at $122,000 and end at $137,000 for single filers. For married joint filers and qualifying widows/widowers, the phaseouts start at $193,000 and end at $203,000. The maximum annual contribution limit to Roth and traditional IRAs combined in 2019 is $6,000 ($7,000 for those age 50 and older), which is more than a Coverdell ESA but much lower than a 529 plan.

As with other investments, Roth IRA assets are subject to market risk.

Your child could also contribute to his or her own Roth IRA using earnings from a part-time job. And if your child doesn’t end up using the funds for college, the money is still available for retirement or other purposes (such as a down payment on a home), as long as Roth IRA distribution rules are followed, including the five-year holding requirement.

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<th>Roth IRA</th>
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<td><strong>Advantages</strong></td>
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<tr>
<td>• Savings in a Roth IRA are not counted as an asset for financial aid purposes*</td>
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<tr>
<td>• Contributions can be withdrawn tax-free and penalty-free at any time, for any reason</td>
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<tr>
<td>• Withdrawals of earnings used for qualified higher-education expenses avoid the 10% early distribution penalty</td>
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<tr>
<td><strong>Limitations</strong></td>
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<tr>
<td>• Eligibility to contribute phases out at higher incomes</td>
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<tr>
<td>• Annual contribution limit is higher than a Coverdell ESA but lower than a 529 plan</td>
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<tr>
<td>• Investments are subject to market risk</td>
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<tr>
<td>* Withdrawals do count toward your income for financial aid purposes.</td>
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Let’s move on to accumulating money in taxable accounts. You may already have opened a savings account that is specifically earmarked for college, or perhaps you are thinking about opening such an account.

Generally, savings accounts, CDs, and money market funds are relatively safe ways to save money for college, but the potential for your money to grow is very limited. If you’re looking for growth, they may not be the best vehicles for all of your college funds.

To increase performance potential over time, you may also choose to invest in stocks, bonds, mutual funds, and exchange-traded funds (ETFs).

Stocks are equity investments. When you purchase shares of stock, you are buying a share of ownership in a corporation. Stocks are oriented toward long-term growth. Historically, they have outperformed other types of investments when held over the long term, but they are also volatile and subject to several types of risk.

A bond is essentially a loan to a business or a government agency. The interest payments on a bond are usually fixed. When you invest in a bond, you can expect to receive regular, fixed income for as long as you hold the bond, unless the issuer defaults. At the end of the bond contract, when it matures, your principal is repaid in full. Bonds are subject to interest-rate, inflation, and credit risks. As interest rates rise, bond prices typically fall. If not held to maturity, bonds may be worth more or less than their original cost.

The Federal Deposit Insurance Corporation insures CDs and bank savings accounts at FDIC-insured institutions for up to $250,000 per depositor, per institution. CDs generally provide a fixed rate of return.

Money market funds are neither insured nor guaranteed by the FDIC or any other government agency. Although a money market fund attempts to maintain a stable $1 share price, you can lose money by investing in a fund.

The return and principal value of stocks, bonds, mutual fund shares, and ETF shares fluctuate with changes in market conditions. When sold, they may be worth more or less than their original cost. Investments seeking to achieve higher yields also involve a higher degree of risk.
Selecting individual investments can be a complex process that requires specialized knowledge, time, and attention. That’s why many people invest in mutual funds and exchange-traded funds (ETFs) to add a mix of stocks, bonds, and cash to their portfolios.

Mutual funds and ETFs are pooled investments assembled by an investment company. Their underlying investments are typically selected to track a particular market index, asset class, or sector—or they may follow a specific strategy. Because these funds can hold dozens or hundreds of securities, they could also provide a greater level of diversification at a lower cost than you might obtain by investing in individual stocks and bonds. Diversification does not guarantee a profit or protect against loss; it’s a method used to help manage investment risk.

Yet in spite of their similarities, there are key differences between these types of pooled investments.

You can invest in mutual funds through investment companies, as well as in employer-sponsored retirement plans. Mutual fund shares are typically purchased from and sold back to the investment company, and the price is determined by the net asset value at the end of the trading day.

By contrast, ETFs can be bought and sold throughout the trading day like individual stocks. You must pay a brokerage commission when buying or selling ETF shares. The price at which an ETF trades on an exchange is generally a close approximation to the market value of the underlying securities, but supply and demand may cause ETF shares to trade at a premium or a discount. However, the ability to buy or sell ETF shares quickly during market hours could encourage some investors to trade shares more often than might be necessary, or to make emotional trading decisions during bouts of market volatility. ETFs are not widely available to investors who participate in employer-sponsored retirement plans.

The return and principal value of mutual fund and ETF shares fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. You should be aware that bond funds are subject to the same interest-rate, inflation, and credit risks associated with the underlying bonds in the fund. As interest rates rise, bond prices typically fall, which can adversely affect a bond fund’s performance.

Mutual funds and ETFs are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, is available from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.
Before you decide how to invest the funds in your college savings program, there are several important considerations to keep in mind.

You need to have a good understanding of your time horizon, risk and reward, and diversification.

Generally, if you start saving for college when your child is very young, you have a longer time horizon and can take a more aggressive approach to investing. The more time you have, the better you can ride out any short-term ups and downs in investment performance. If you have a shorter time frame, you may want to take a more conservative approach.

An understanding of your personal tolerance for risk is another key factor when you weigh risk and potential reward. You don’t want to gamble with your child’s education, so generally you want to choose investment vehicles that have risks with which you are comfortable. We just discussed some of the risks involved when investing in bonds, stocks, mutual funds, and ETFs. It's important to balance the growth potential of different investments with the risks involved. Remember: The more potential for growth offered by an investment, the more risk it typically carries.

Diversification is another fundamental principle that can help you reduce overall risk. As the old saying goes: Don't put all your eggs in one basket. Diversification involves investing in different asset classes and investment vehicles in order to limit exposure to losses in any one sector of the market. Of course, diversification does not guarantee a profit or protect against loss. It is a method used to help manage investment risk.

To help put these principles in perspective, we'll look at two different asset allocation models that may be appropriate for conservative and aggressive investors who are saving for college.
This sample asset allocation model might be appropriate for investors who have 10 or more years before their children will attend college.

Because there is a longer time horizon, these investors may want to invest more aggressively. An appropriate investment mix might be 5 percent in cash-alternative vehicles, 20 percent in bonds, and 75 percent in growth-oriented stocks.

The individual investments in this portfolio would have more volatility, but over this time horizon, this aggressive mix may ultimately yield a higher overall potential return than a conservative portfolio.

Keep in mind that this hypothetical example is used for illustrative purposes only. Actual results will vary. Investments offering the potential for higher rates of return also involve a higher degree of risk of principal.
This sample asset allocation model might be appropriate for investors who have students who are only two years or so away from attending college and want to manage their risk of loss.

An appropriate portfolio for conservative investors or those with a short time horizon might look like this: 50 percent in bonds, 30 percent in stocks, and 20 percent in cash alternatives. This mix of investments may provide an adequate potential return for the risk these investors are willing to take.

This hypothetical example is used for illustrative purposes only. Actual results will vary.
Even if you save on a regular basis, there may still be a gap between your savings and what you’ll need to pay for college.

Of course, you might be able to rely in part on your current income during the college years to pay expenses.

In addition, there are other funding sources that can help bridge the gap at college time.

Let’s look at them in more detail.
One of the most common sources of additional funding for college is financial aid.

Financial aid is money given primarily by the federal government and colleges to help students pay for college. It can be based on need or merit.

Financial aid can take the form of loans, grants, scholarships, or federal work-study. Loans must be repaid, while grants and scholarships do not. In a perfect world, you want to maximize grants and scholarships while minimizing loans. How can you do this?

One way is to spend some time thinking about which colleges your child applies to because colleges are the largest source of grant aid. To help compare the financial generosity of different colleges, you can use a net price calculator, an online tool that every college is required to have on its website.

A net price calculator helps give you an estimate of how much grant aid your child might be eligible for at a particular college before your child applies. You must input your income, assets, and family information; most calculators take about 10 to 15 minutes to complete.
During the 2017–2018 school year, undergraduate students received approximately $184 billion in financial aid. Of this aid, 30 percent came from federal loans; 60 percent came from grants from all sources, including colleges, the federal government, states, and private grants; 8 percent came from education tax benefits; and a nominal amount — less than 1 percent — came from work-study.

Source: Trends in Student Aid 2018, College Board
In order to be considered for financial aid, you must complete the Free Application for Federal Student Aid (FAFSA) for each year that your student will attend college.

The FAFSA uses a formula based on family income and other factors to calculate your expected family contribution (EFC). This is the minimum amount your family is expected to contribute toward college costs. The EFC remains the same regardless of which school your child attends.

The difference between the cost of a particular college and your expected family contribution is your child’s financial need.

The most important factor in determining eligibility for financial aid is your income. The number of children you have in college at the same time is another significant factor. For example, having two children in college will cut your EFC in half. Your assets, overall family size, and age of the older parent also play a role in the equation. You should be aware that parental assets are weighed differently than the student’s assets (5.6% assessed rate for parents vs. 20% for the student).

Regardless of whether you think your child will qualify for aid, you should still consider filing the FAFSA. Not only it is a prerequisite for college need-based aid, but it is sometimes necessary for college merit-based aid and is always a prerequisite for federal loans.

The FAFSA can be filled out as early as October 1 in the year before a student begins college. The earlier you file the FAFSA, the better chance you have of obtaining the most funds available for the upcoming school year. In fact, some state aid is awarded on a first-come, first-served basis.

Source: U.S. Department of Education, 2018
On page 14 in your workbook, you’ll find these easy steps to apply for financial aid.

(Pause to give participants sufficient time to locate the appropriate page.)

The first step is to check your child’s eligibility for financial aid. Is a GED or high school diploma required? Is your child enrolled in an eligible degree program? Does your child meet the academic requirements?

The second step is to fill out the FAFSA form, which is available at [fafsa.ed.gov](http://fafsa.ed.gov). As basic as this sounds, make sure you have the form for the correct school year. Complete the form carefully and submit the application (and the necessary financial statements) as early as possible and no later than the applicable deadline.

If your child plans to attend college between September 2020 and June 2021, you would submit the 2020–21 FAFSA, which would be available on October 1, 2019, the year before your student begins college. The FAFSA now relies on federal income tax information from two years prior to the beginning of the school year, which is referred to as the “prior-prior” year or the “base year.” The 2020–21 FAFSA will rely on your 2018 tax information.

An online IRS tool can simplify the task of transferring relevant financial figures directly to the FAFSA form if you have filed your federal income tax returns. The IRS Data Retrieval Tool (DRT) saves time, improves accuracy, and reduces the likelihood that a school’s financial aid department will request additional verification of the financial information provided on the form.

After submitting the FAFSA, your child should receive the Student Aid Report (SAR), which could take up to three weeks. The third step is to verify the information on the report and provide corrections, if needed.

Source: U.S. Department of Education, 2018
As I mentioned earlier, in a perfect world, you want to maximize grants and scholarships while minimizing loans. How can you do this?

One way is to spend some time thinking about which colleges your child applies to because colleges are the largest source of grant aid. To compare the financial generosity of different colleges, you can use a net price calculator, an online tool that every college is required to have on its website. A net price calculator allows you to get an estimate of how much grant aid your child might be eligible for at a particular college before your child applies. You must input your income, assets, and family information; most calculators take about 10 to 15 minutes to complete.

In addition, your child can search for scholarships. Although academic and athletic scholarships may be the most widely known, scholarships are awarded based on everything from academic performance to financial need to religious affiliation to ethnic background. There are even offbeat scholarships for people with a specific last name, or people who are left-handed.

A variety of organizations offer scholarships — universities and colleges, religious organizations, community groups, and corporations, to name a few. Some organizations offer scholarships as a means to attract students to a specific field of study or a particular degree.

High school guidance counselors and college financial aid departments can recommend information on scholarships. Students can also match their personal profiles against thousands of scholarships through the College Board’s website and search engines such as Fastweb.com and Collegenet.com.
Loans can be obtained from both the federal government and private financial institutions. Both student loans and parent loans are available.

The Federal Perkins Loan is a fixed, low-interest (5 percent) federal loan available to both undergraduate and graduate students who demonstrate the greatest financial need. College financial aid offices award this type of loan, which uses government funds, to students with the highest need. While the student is in school, interest does not accrue and no loan payments are due. Repayment with interest generally begins nine months after the student leaves school.

Direct Loans, another type of low-interest loan available to undergraduate and graduate students, are made directly with the federal government. Direct Subsidized Loans are based on need, and the government pays the annual interest while the student is in school. Direct Unsubsidized Loans are not based on financial need, and interest accrues while the student is in school. Repayment for Direct Loans is delayed until six months after the student leaves school.

The largest source of parent loans is the Direct PLUS (Parent Loans for Undergraduate Students) program, which is available to parents of dependent undergraduate students, as well as to graduate students. Loans are funded by, and payment is owed to, the federal government. Parents can borrow up to the total cost of attendance, minus any aid received. Repayment of principal and interest starts 60 days after money is paid to the school.

And, of course, private student and parent loans are available from financial institutions. Typically, parents must co-sign on private student loans, which means that they are on the hook for repaying the loan if their child is unable to after graduation.

Borrowing money using a federal or private loan may or may not be a good option for your family. Before making a decision on whether to take out a loan, consider the interest rate of the loan, the amount that can be borrowed, the amount of time available to pay off the loan, and any fees or charges that may be associated with the loan.
Student debt has become a burden for many Americans. About 65 percent of graduates of the Class of 2017 had student loan debt, with an average debt of $28,650. Over 44 million Americans are paying back student loans. Although most borrowers are young adults, older Americans have student debt, too.

Not only are older borrowers carrying their own student loan debt later in life, but they are taking out loans to finance their children’s and grandchildren’s college educations, either directly or by co-signing a loan. This could have serious repercussions in their quest to save for a comfortable retirement.

This chart shows the number of adults, in millions, in each age category who currently have student loans.

If you and/or your child plan to borrow money to help cover college costs, have you considered how much student debt may be too much? You might consider weighing the debt necessary to fund a specific educational path against a realistic assessment of your child’s earning potential after graduation.

One oft-repeated guideline suggests that a student borrow less than his or her projected annual starting salary after graduation. Thus, a student pursuing an engineering degree might be more comfortable borrowing money than a student who is pursuing a degree in social work. Keeping borrowing close to a projected starting salary should enable a college graduate to pay off the loan in 10 years or less.

Of course, increasing your own college savings strategy could provide more options for your child and might reduce the need for student loans.

Sources: 1) Institute for College Access & Success, 2018; 2) Federal Reserve Bank of New York, 2018; 3) Consumer Financial Protection Bureau, 2017
In addition to financial aid, here are some additional sources of funds that might be available to help pay for college.

Some people withdraw money from retirement plans or tap into their home equity.

Some parents may also qualify for education tax credits, specifically the American Opportunity Tax Credit and the Lifetime Learning Credit.

And some students may have grandparents or other close family members who want to gift money to help cover college costs.
If you participate in a retirement plan, you have the opportunity to use some of the funds you’ve accumulated to help pay for college. Of course, you should remember that if you withdraw funds from your IRAs and/or employer-sponsored plans, you are reducing the money that will be available to you during your retirement years.

Generally, IRA withdrawals are subject to a 10 percent federal income tax penalty if taken prior to age 59½. However, the penalty does not apply to IRA withdrawals that are used to pay qualified higher-education expenses such as tuition, fees, and supplies for you as the IRA owner and for your spouse, child, or grandchild. Before taking action, it’s important to understand the rules in your particular plan.

Another alternative is to borrow funds from an employer-sponsored retirement plan, such as a 401(k). Many plans allow loans for educational purposes but limit the amount to 50 percent of the participant’s vested portion. There are some disadvantages to this option. First, money borrowed from a retirement plan is no longer pursuing potential investment returns, which could result in a retirement income shortfall. Second, loans from employer-sponsored plans must be repaid with interest, generally over a five-year period. So if you leave or lose your job, immediate repayment may be required.

Withdrawals from traditional IRAs and most employer-sponsored retirement plans are taxed as ordinary income and may be subject to a 10 percent federal income tax penalty if taken prior to age 59½ (with some IRS exceptions, such as those used for qualified higher-education expenses).
If you have built up equity in your home, a home equity loan or line of credit might be an option for you. Home equity loans enable you to borrow up to 80 percent of the equity in your home, and you can use the money for almost anything, including college. With this option, you should be aware that if you default on the loan or don’t repay, you are putting your home on the line.
The federal government offers two tax credits that could help ease the financial strain of paying for college.

The American Opportunity Tax Credit is worth up to $2,500 per year per student for the payment of qualified tuition, fees, books, supplies, and equipment (but not room and board). It can be taken for a student’s first four years of college. The student must be enrolled at least half-time for one academic semester during the tax year. If you have several students in your family, you can claim multiple credits based on the expenses of each student. For example, if you have three kids in college, you can claim up to $7,500 ($2,500 x 3).

In 2019, the American Opportunity Tax Credit starts to phase out for single taxpayers with modified adjusted gross incomes (AGIs) exceeding $80,000 and for married couples filing jointly with AGIs exceeding $160,000.

The Lifetime Learning Credit is worth up to $2,000 per year per tax return for qualified tuition and fees paid for undergraduate, graduate, and vocational education.

The Lifetime Learning Credit may be claimed for an unlimited number of tax years but cannot be claimed for a student who is also claiming the American Opportunity Tax Credit in the same year. It is also limited to one per tax return, no matter how many students in your household who may qualify.

In 2019, the benefit for the Lifetime Learning Credit gradually phases out for single filers with AGIs between $58,000 and $68,000, and for married joint filers with AGIs between $116,000 and $136,000. (Those who are married and filing separately are ineligible.)

To qualify for either education credit, the eligible student must be either the taxpayer, the taxpayer’s spouse, or a dependent listed on the taxpayer’s return.

Specific rules apply to the use of tax credits for education expenses. Distributions from a Coverdell ESA and a 529 college savings plan can be used in concert with the American Opportunity Tax Credit or the Lifetime Learning Credit as long as the funds being claimed are used for separate identifiable qualified expenses.
If your child has grandparents — or close aunts and uncles — who want to help cover college costs, there are generally three ways for them to do so.

The simplest option is for grandparents to make an outright gift of cash or securities to the grandchild or to his or her parents. Keep in mind that gifts exceeding the annual gift tax exclusion amount — $15,000 for individual gifts or $30,000 for joint gifts in 2019 — may be subject to federal gift tax. In addition, the generation-skipping transfer tax may apply to gifts given directly to grandchildren or great-grandchildren.

If funds are gifted directly to a child or to the child’s parent(s), they will be counted as assets for financial aid purposes. Under the federal aid formula, students must contribute 20 percent of their assets each year toward college costs, and parents must contribute 5.6 percent of their assets.

Another option is for grandparents to pay the college directly. Tuition payments made directly to a college are not considered taxable gifts, no matter how large the payment. Even so, a direct tuition payment might prompt a college to reduce any potential grant award in the grandchild’s financial aid package.

The third way for grandparents to contribute funds for college is to contribute to a 529 college savings plan, which we discussed earlier. Under rules unique to 529 plans, grandparents can make a joint lump-sum gift to a 529 account of up to $150,000 in 2019 (or $75,000 for an individual) and avoid federal gift taxes by making a special election on their tax return to treat the gift as if it were made in equal installments over a five-year period. This also removes the assets from the grandparents’ taxable estate.

Grandparent-owned 529 accounts are not counted as a parent or student asset on the federal government’s aid form, the FAFSA, but withdrawals from a grandparent-owned 529 account are considered student income in the following academic year, which could lower the grandchild’s eligibility for financial aid in that year by up to 50 percent.

As with other investments, there are generally fees and expenses associated with participation in a 529 savings plan. There is also the risk that the investments may lose money or not perform well enough to cover college costs as anticipated. The tax implications of a 529 plan should be discussed with your legal and/or tax advisors because they can vary significantly from state to state. Most states offer their own 529 programs, which may provide advantages and benefits exclusively for their residents and taxpayers. These other state benefits may include financial aid, scholarship funds, and protection from creditors.

Before investing in a 529 savings plan, please consider the investment objectives, risks, charges, and expenses carefully. The official disclosure statements and applicable prospectuses, which contain this and other information about the investment options and underlying investments, can be obtained by contacting your financial professional. You should read this material carefully before investing.
We’ve discussed college costs, the importance of establishing a college fund, and other resources that might be available come college time.

Finally, it’s important to consider the final countdown to college — what you and your student can do during the four years of high school to prepare.

For example, you need to ensure that your child takes the required courses to graduate and the necessary college entrance exams. No doubt you will be researching the colleges your student is interested in, requesting college applications, and helping your child apply for scholarships and/or financial aid. This is also a good time to try net price calculators on different college websites. You can review some of these action items in the workbook on page 17.

Following through on these actions can help ensure that your family and your student are ready for college.
Making a consistent commitment to save on a regular basis should pay off over time, even if you can afford to start out by saving only $100 a month.

For example, if you invest $100 a month for 15 years, you could accumulate nearly $30,000 in your child’s college fund, assuming a 6% annual rate of return. If you are able to save $500 a month for 15 years, you could accumulate more than $145,000. Obviously, the sooner you start saving, the more time your money will have to grow.

A good strategy is to start with whatever you can afford and then add to it over time as you receive raises, bonuses, tax refunds, and unexpected windfalls.

This hypothetical example is used for illustrative purposes only. It assumes a 6 percent annual rate of return. Rates of return will vary over time, especially for long-term investments. The performance shown does not reflect the performance of any particular investment. Taxes and investment expenses are not considered. Actual results will vary.
We’ve covered a lot of information. We’re confident that we have given you some sound approaches to building a college fund.

So where do you go from here?

There are several ways to proceed.

You can do it yourself. You can research different options and gradually assemble a college portfolio that may meet your needs. It’s a tremendous amount of work, but you could do it.

You can work with others. Perhaps you have contacts who can help you accomplish some of your financial goals.

You could work with us. We hope you feel comfortable with what you’ve learned about our professional knowledge and the approach we take with our clients.

Finally, you can procrastinate. Because of the ever-increasing cost of college, procrastination is not a prudent move.

Of course, we hope you’ll decide to work with us, and we hope you’ll come to the complimentary consultation. We don’t expect you to make any decisions now, nor do we expect you to decide when you come in to our office. We want you to decide only when you’re ready. As you get to know us better, we feel confident that you’ll want to work with us. But again, the choice is up to you.
Will everyone please pull out the evaluation form I talked about earlier?

I would like you to fill out the form now and turn it in. The evaluation form is your way of commenting on the workshop. It also lets me know whether you’d like a personal meeting to discuss any of the ideas you’ve learned here. Because many of the people who attend our workshops come in for a complimentary consultation, we’ve blocked out several days next week to meet with you, answer your questions, and address your specific concerns.

(Look around the room to be certain everyone is filling out an evaluation form. If some are not, take a step forward and ask for everyone to fill out an evaluation form. If some participants still do not take out their forms, have extra forms available to hand out to them.)

Remember my two promises. If you check “Yes, I am interested in scheduling a complimentary consultation,” I’ll call you tomorrow to set up an appointment. If you check “No, I am not interested in scheduling an appointment at this time,” no one from our office will contact you directly after the workshop. I’ll be collecting the evaluation forms as you leave today.
In addition to your workshop workbook, there are several important items you should bring to the complimentary consultation. On the back of your workbook, you’ll find a place to write these down.

(Note: Mention the important financial forms and documents that you would like participants to bring to the consultation. Among others, you may want to include:

- Personal balance sheet
- Personal income statement
- Recent bank/brokerage statements
- Income tax returns — past three years
- Life insurance policies
- Annuity contracts
- Retirement plan account statements.)

Also, on pages 18 and 19 of the workbook, you’ll find worksheets designed to gather pertinent financial information about you. Please go ahead and fill them out at home. Then during our consultation, we’ll review this data accordingly.

Of course, if you can’t find some of these documents or don’t finish the worksheets, please come anyway. We are looking forward to meeting with you either way.
Thank you for coming to our workshop. I want to compliment everyone on the interest you’ve shown in building a college fund.

Before you leave, I’d like to shake hands with you and collect your evaluation forms.

Thank you again.