

Revive Your Education Savings

by Vincent R. Barbera, CFP®

Retirement accounts weren't the only victims of the market collapse. Years of education savings also evaporated. Here are some tips to get back on track:

Set Expectations

Engage in budget talks with your child before they apply to schools to help them understand the available resources.

Look for Loans

Do not assume that filing a FAFSA (Free Application for Federal Student Aid) is futile. The FAFSA determines your "expected family contribution" (EFC), based on income and assets. If a school's total costs exceed the EFC, an aid package will be offered. Filling out the FAFSA allows students to become eligible for a Stafford loan, part of the federal loan program. Unsubsidized federal student loans carry a fixed interest rate of 6.8%.

Consider Debt

An alternative to Stafford loans or PLUS loans is home equity. With rates still attractive, it may make sense to borrow against your home's equity. Any withdrawals from retirement accounts should be considered a last resort. Remember, "You can borrow to pay for college but you cannot borrow for retirement."

Seek Financial Aid

Apply for aid directly through the school. The odds of receiving merit-based aid greatly increases when a student falls within the top 20% to 25% of the applicant pool.

Investigate Tax Benefits

As part of the expanded *Hope Scholarship Tax Credit*, the *American Opportunity Tax Credit* provides a tax credit of up to \$2,500 per student if you spend at least

\$4,000 a year on college costs. The credit is subject to a phaseout of \$160,000 to \$180,000 in modified adjusted gross income for married filing jointly and \$80,000 to \$90,000 for single filers, and will expire after 2010.

Develop a Withdrawal Strategy

If you can wait, use 529 plan assets for the final years of college. This may increase your chance to recover some of your costs by receiving need-based aid.

TGS Financial Advisors offers an analysis called the *Education Funding Tracker™*. It will track the money you have saved for college, and place those savings in the context of what you will need to fully or partially pre-fund college costs.

The *Full Funding* line shows the amount that you would need to save to cover all college costs. The *Half Funding* line indicates the accumulation value that will result in saving 50% of the projected costs. The parameters of the zones vary depending on the specifics of your situation.

If you are concerned about reaching your education goals, please feel free to contact us. We can help you determine appropriate levels of funding, and track your progress towards those goals.

Sample: *Education Funding Tracker™*

