

New Hampshire Estate Planning Council

“Making Smart Choices for College Financing”

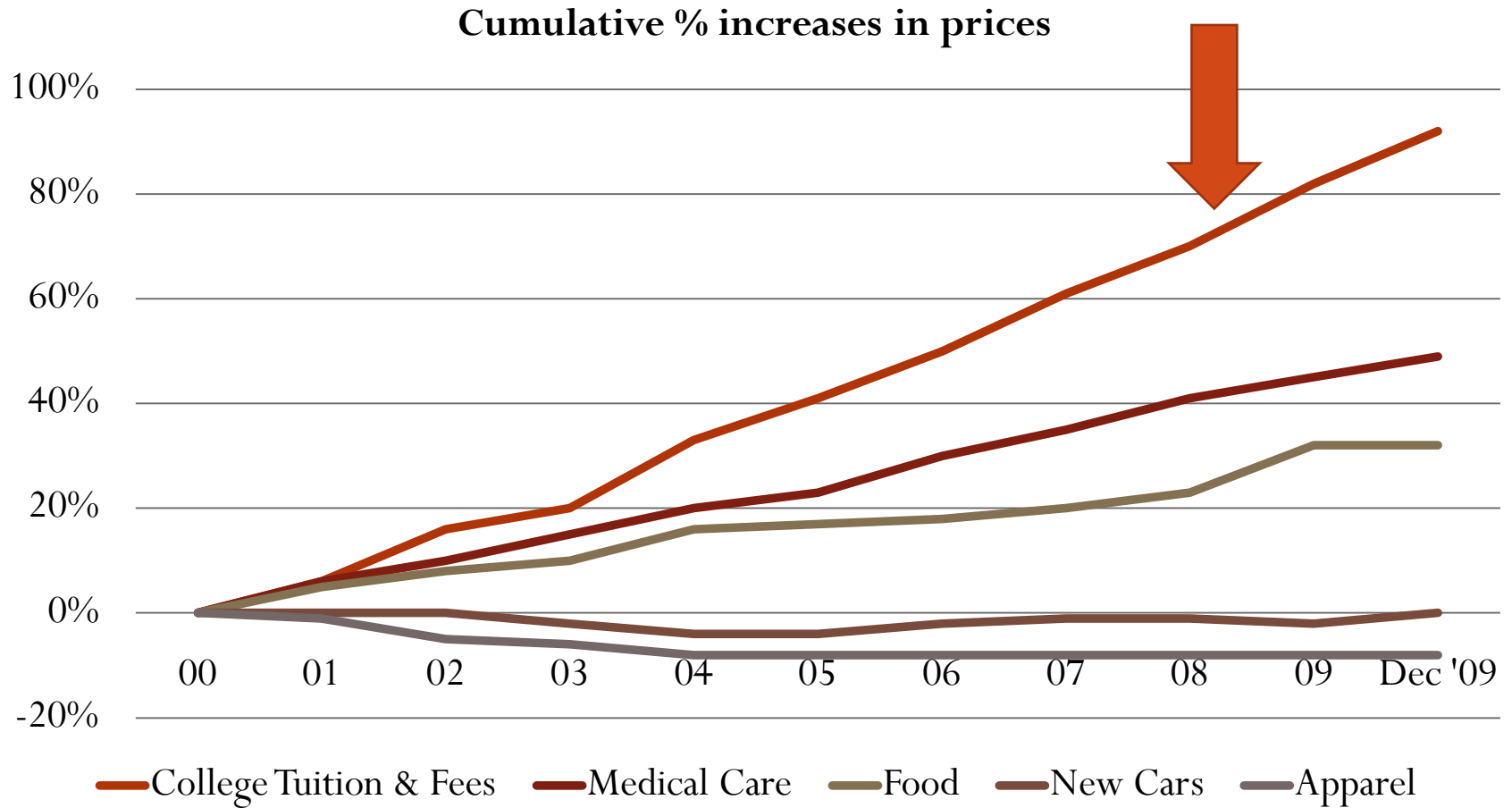
September 15, 2010



www.strategiesforcollege.com

The Costs of College

Inflation in higher education expenses has been nearly double that of medical care



Our Philosophy

- Mom and Dad are entitled to life after college.
- Young men and women are advised to seek admission to colleges that match their interests and abilities, NOT necessarily those that are “hot” or “fashionable.”
- Families are encouraged to design the college list to be compatible with the resources they actually have or want to use to pay for college. This does not mean “sticker price shopping.”
- For the majority of families, it is best to *integrate* the college search with a sound financial strategy.
- Students tend to underestimate the competition. For best outcomes, don't get overly focused on brand name colleges.



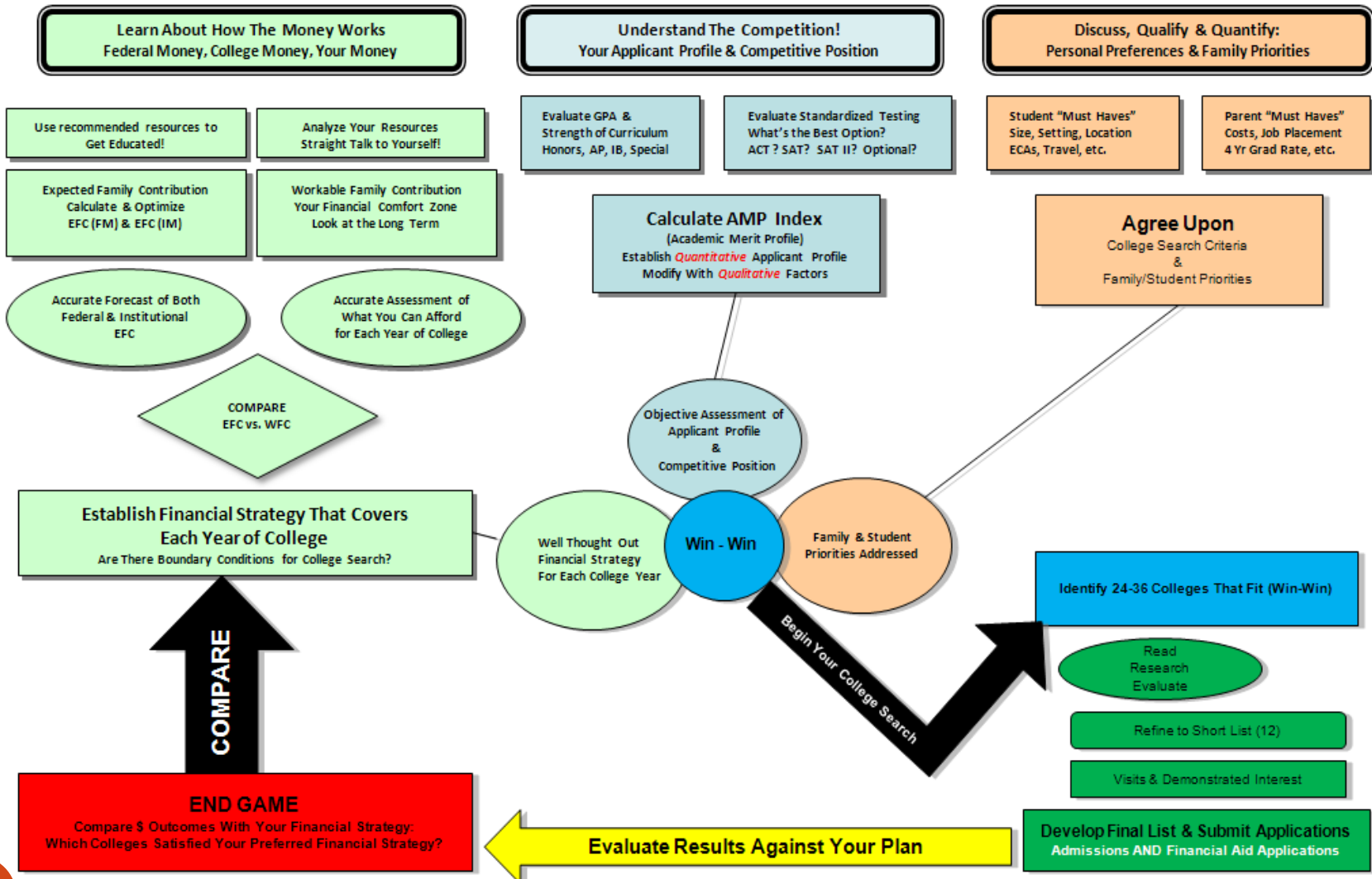
What Concerns Parents Most

- when to begin planning for college
- what exactly needs to be done – and when
- finding a “good fit” college for their student
- paying for college without going broke before retirement
- the increasing difficulty of gaining admission to the better colleges – even for well qualified students.
- college costs continuing to increase at 2-3 times the rate of inflation
- not having the information or guidance for their students to be competitive at the better colleges
- finding the “best fit”
- establishing a track on which to run – a “Game Plan.”

Source: Strategies For College in house surveys 2009

Strategies For College, Inc.

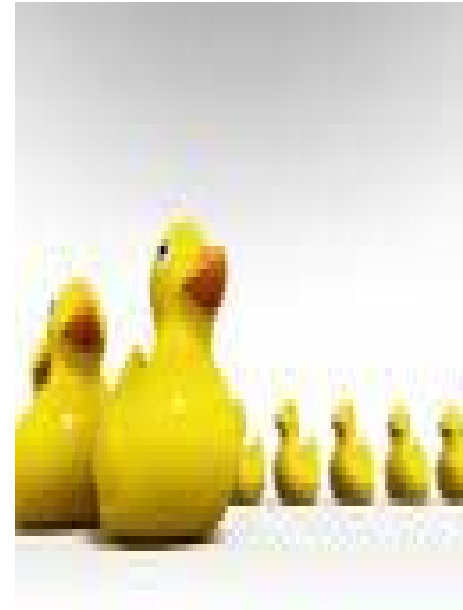
"The Game Plan"



Milestone Planning

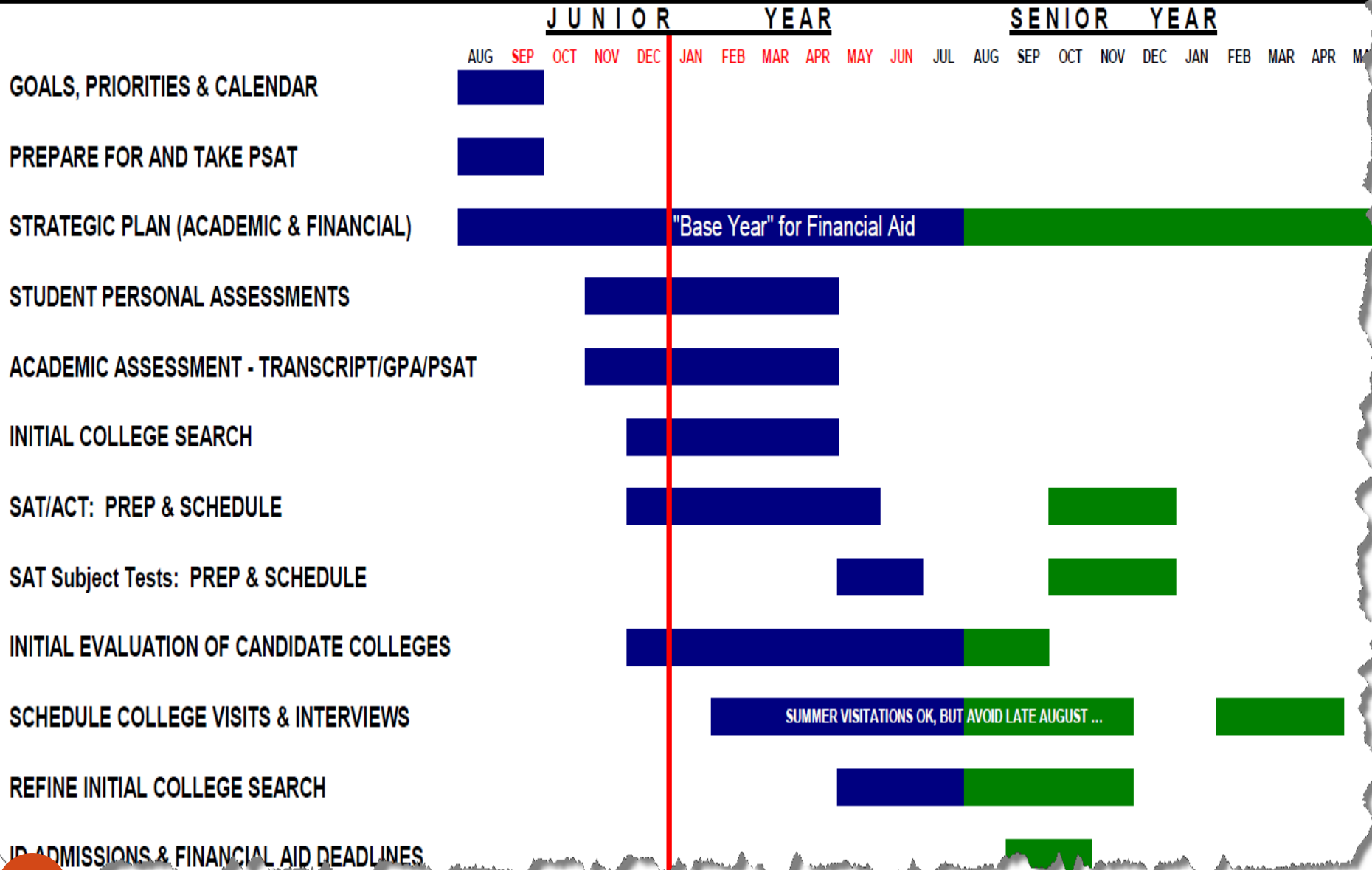
Getting Your Ducks in a Row

- It's a good idea to approach this like a project manager
- Identify the milestones and the critical path
- Identify the windows of time available for certain milestones
- Identify the slack and non-slack options (i.e. SAT and ACT)

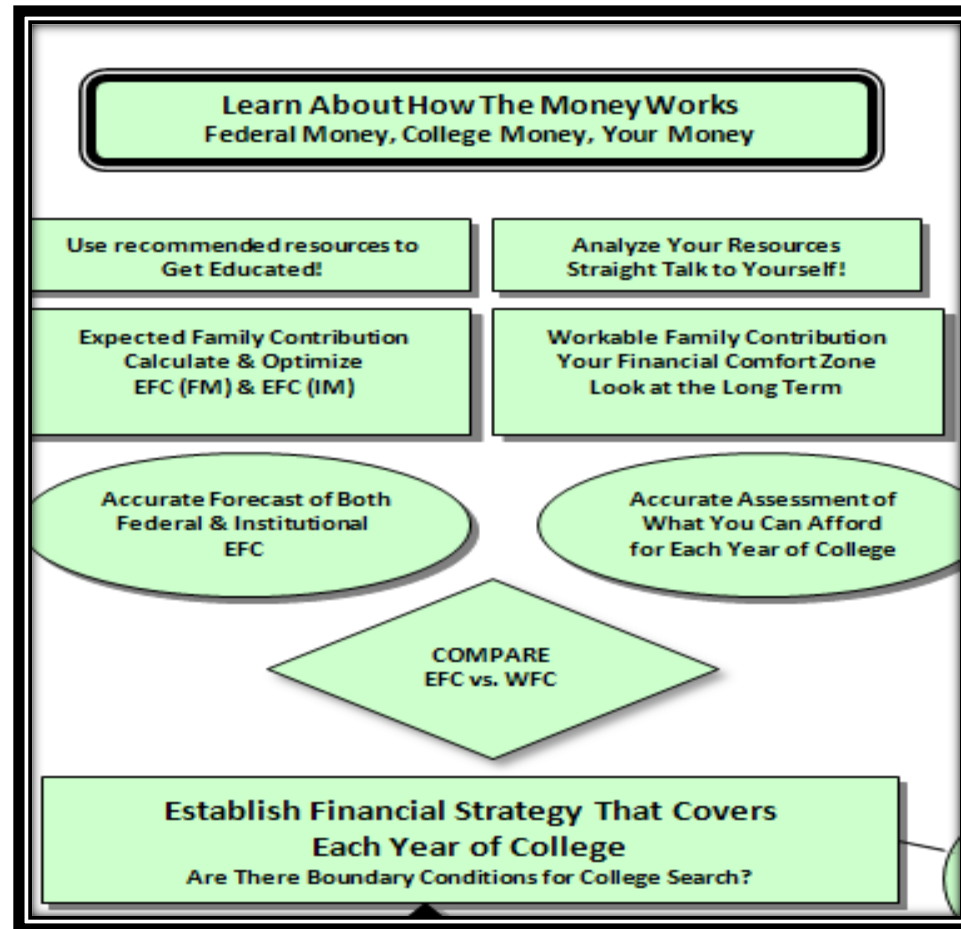


Bottom Line: Start early and identify a track on which to run

RECOMMENDED PLANNING & MILESTONE CHART FOR COLLEGE BOUND STUDENTS



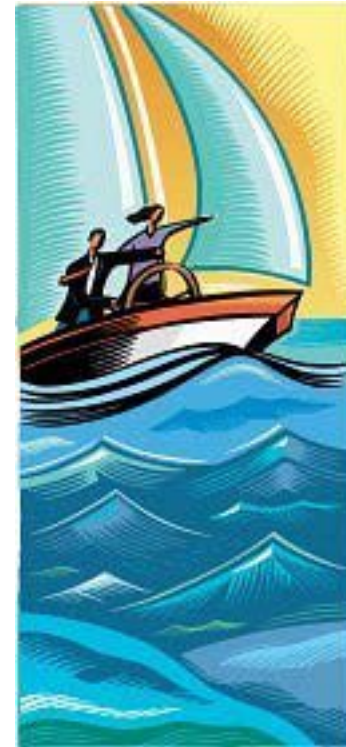
THE MONEY FACTOR



The Money Factor: Takeaways

“get both hands on the tiller”

- Define “financial need”
- Calculate EFC
- Use IM and FM
- Differences between IM and FM
- Optimize EFC



Financial Need

**TOTAL COST OF ATTENDANCE
MINUS EXPECTED FAMILY CONTRIBUTION
= NEED**

**Need: Maximum eligibility for need based
financial aid.**

Expected Family Contribution (EFC)

<u>Parent Income</u> Max assessment = 47% AFTER ALLOWANCES	<u>Student Income</u> FM assessment: 50% after first \$5,250 IM assessment: \$1,550 min, then 50%
<u>Parent Assets</u> Max Assessment: 5.64% AFTER ALLOWANCES	<u>Student Assets</u> FM assessment: 20% IM assessment: 25%

Parent Contribution + Student Contribution =

Expected Family Contribution

Don't Be Deceived By Sticker Price

	<u>College A</u>	<u>College B</u>	<u>College C</u>
Cost of Attendance	\$20,000	\$30,000	\$40,000
EFC from FAFSA	<u>\$10,000</u>	<u>\$10,000</u>	<u>\$10,000</u>
Need*	\$10,000	\$20,000	\$30,000
Average % of need met**	60%	70%	80%
Estimated Award	\$ 6,000	\$14,000	\$24,000
Estimated GAP	\$ 4,000	\$ 6,000	\$ 6,000
Potential Net Cost of College	\$14,000	\$16,000	\$16,000

* Maximum eligibility for need based financial aid.

•** Our estimates. Does not reflect any college or university statistics.

It is important that you understand how the EFC is derived, as colleges use financial aid to supplement, not to replace, a family's ability to pay. At most private colleges, and some public colleges, The **Expected Family Contribution** is calculated using one or both of two standard methodologies: Federal Methodology and Institutional Methodology.

- **Federal Methodology (FM)** - This formula is used to determine eligibility for all federal aid, including Pell Grants, Stafford Loans, Perkins Loans, Work-study, and most state scholarship aid. The EFC is determined from the data provided on the Free Application for Federal Student Aid (FAFSA) and verified using data from federal tax returns and other supplemental documents. FM excludes some forms of income and expenses, and eliminates some assets from consideration, when calculating the EFC. *This EFC will appear on the Student Aid Report (SAR) that you receive after submitting the FAFSA.* However, this EFC may not be the same EFC you see on your financial aid award letter.
- **Institutional Methodology (IM)** - Most colleges and universities awarding institutional funds use some variation of the Institutional Methodology as established by the College Board. In using IM, they adhere to a number of additional policies when reviewing each student's eligibility for grant assistance. This analysis includes several income and asset factors not considered in FM. In most instances that this method of needs analysis more accurately determines a family's ability to pay for education. *Typically, this EFC will appear on your award letter from the college or university.* However, there are situations where the IM calculation may actually be lower than the FM calculation due to slight differences in the tables and indexes used to calculate the contribution.



A Twisted Little Secret...

- The tax year that really determines need based aid is not “in sync” with the senior year in high school.
- It starts January 1st of the *Junior* year and ends December 31st of the *Senior* year.
- It is called: **“The Base Year”**

“The Base Year”

Example: Class of 2011

How might
this impact
Estate
Planning
Strategies?

- 1/1/09 – 12/31/09
- Sophomore into Junior year

“Set Up Year”

Finalize Planning by
10/31/09

Timer starts on 1/1/10

“Base Year”

The timer is ON

- 1/1/10 – 12/31/10
- Junior into Senior year

- 1/1/11 – able to file for financial aid
- 8/20/11 – student enrolls

Student Enters College

“Financial Aid Income” - Federal

For Students and Parents

Adjusted Gross Income

Untaxed Income

Child Support Received

Untaxed Interest Income

Retirement plan contributions & traditional IRAs

Untaxed portions of pension/IRA distributions

Untaxed worker's comp/disability benefits

Housing, food, living allowances (military & clergy)

Money paid on your behalf and cash gifts

“Financial Aid Income” - Institutional

- Depreciation and losses on businesses and real estate,
- Amounts withheld from wages for dependent care and medical spending accounts,
- Earned Income Credit,
- Additional Child Tax Credit,
- Welfare benefits including TANF (not food stamps or subsidized housing),
- Social Security payments that were not taxed (amount for student and amount for other family members),
- Foreign Income Exclusion,
- Credit for tax on special fuels.

Exclusions from income

All colleges exclude:

- Child support paid because of divorce or separation

Calculations for Federal aid exclude the following:

- Hope and Lifetime Learning tax credits,
- taxable earnings from need-based employment programs (Federal Work-Study) and need-based employment portions of fellowships and assistantships,
- student grant and scholarship aid reported to the IRS as part of adjusted gross income--this includes AmeriCorps benefits (including living allowances) and grant or scholarship portions of fellowships and assistantships
- taxable combat pay or special combat pay if it is included in adjusted gross income (reported on W-2, Box 12, Code Q).

Allowances against income

permitted by both FM and IM

- **Federal and Social Security taxes.** The amounts paid for federal and social security taxes directly reduce your income dollar for dollar. The higher your taxes, the lower your income as viewed by aid formulas
- **State and other taxes.** The formulas allow different amounts for each state, depending on each individual state's levels of state income taxes, sales taxes, property taxes and other taxes.
- **Employment allowance.** A single working parent or two working parents can benefit from the employment expense allowance, which takes into account the costs of going to work. For the aid year 2010-2011 FM allows the lesser of \$3,500 or 35%, of income; IM is \$3,970 or 44%.
- **Income protection allowance.** The income protection allowance is based on the number of family members and the number of students in college. The idea is to leave a basic floor of income for living expenses. For a family of four with one in college, parents' FM income protection allowance for the aid year 2010-2011 is \$24,370.

Retirement contributions

- Aid formulas count employee retirement contributions as untaxed income. This pertains to deductible IRA and/or Keogh payments, as well as payments to tax-deferred pension and savings plans (paid directly or withheld from earnings) as reported on the W-2 form. Untaxed portions of 401(k) and 403(b) are included.
- The concept behind counting these contributions is that the money could be used for education costs or for other expenses during college years. However, employer contributions to qualified retirement accounts are not included in untaxed income.

Roth IRAs

- If parents converted an amount from a traditional IRA to a Roth IRA, let the college's financial aid officer know about any resulting 2010 taxable income.
- Since the income was not earned in 2010, it should not be counted.
- If it were counted, financial aid eligibility would be decreased.

Parents' Assets

Both FM and IM

- Cash, savings and checking accounts
- Investments: trust funds, money market funds, mutual funds, CDs, stocks, bonds, and other securities, commodities, precious and strategic metals, installment and land sale contracts (such as mortgages owed to you),
- real estate other than the family home (including vacation property),
- a percentage of the value of businesses and investment farms -- FM (but not IM) exempts family-owned and family-controlled small businesses or farms that have fewer than 101 full-time or full-time equivalent employees
- parent-owned Qualified Education Benefits (Coverdell savings accounts, 529 college savings plans, and the refund value of 529 or state prepaid tuition plans for the student applicant and his or her brothers and sisters), *and also*
- Qualified Education Benefits *owned by the student.*

Additional Assets

Counted as parents' assets by IM schools only

- home equity,
- value of *nonretirement variable annuities*,
- equity in a family farm home and family farm business,
- percentage of the value of business and investment farms even when they are family owned and controlled and have fewer than 101 full-time or full-time equivalent employees
- assets that are held in the names of the student's brothers and sisters who are under age 19 and not college students,
- some IM colleges inquire about parent retirement accounts, cash value of life insurance, assets held in another person's name, and the value of motor vehicles

Optimize the EFC

Where are the flex points?

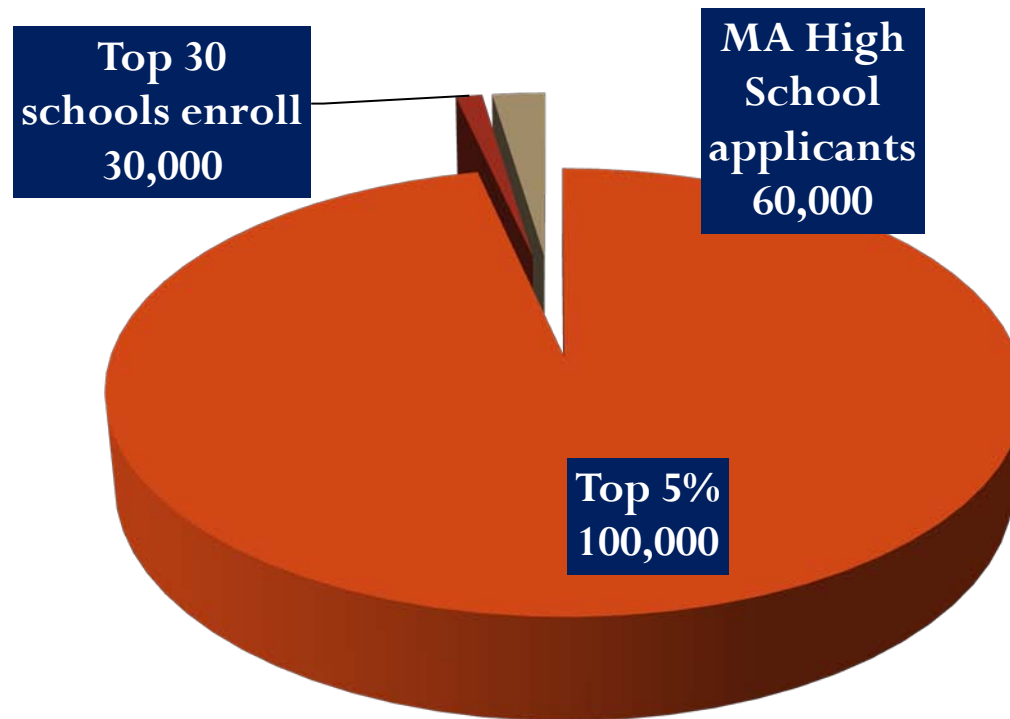
- Can (base year) parent income be reduced?
- Can student assets be reduced or gifted back to parents?
- Can parent assets be used to retire “invisible debt”?
(credit cards, education loans, auto loans, etc.)
- Can parent assets be repositioned into exempt assets?
- How are assets being valued? Home? Real Estate? Business?
- Aware of the Housing Multiplier Index?
- Could a deferment year make a difference?
- Other ideas?



College Applicants Nationwide

Approximately 2 Million applicants in 2010

What are the credentials of the top 5 percent?



Enrollment Management

- Optimizes enrollment through segmenting and viewing varied price sensitivities.
- Shapes enrollment by allowing the college to selectively increase specific groups of students through the use of targeted aid and merit discounts.
- Maximizes net revenue by allowing the college to control its financial aid budget and net revenue outcomes.



Enrollment Management

- Colleges using merit aid and discounts packaged creatively as merit awards have decided to seek a *balance* between the positive academic and personal attributes of applicants and the total revenue that applicants can generate for the college.
- The *enthusiasm* for low need or “full pay” students with academic profiles that are considered *close* to the past standard for admission has grown from a flame to a roaring fire!



Enrollment Management

- High need students close to the admission cutoffs will increasingly be denied admission, and if admitted, will receive less institutional grant funding.
- Low need or no need students will increasingly gain admission and also receive more aid in the form of institutional aid because their net payout to the college will still be exceed that of the average student
- Therefore, they are viewed today as having more value.


Enrollment Management

- High need students and students with average levels of need whose academic credentials place them in the upper half of an admitted class should continue to receive strong financial assistance.
- In some cases these students will receive even more aid than in the past because the college may be trying to *maximize yield* from its top group of talent regardless of cost.
- Some of this additional funding would be generated by enrolling fewer high cost students whose academic profiles are marginally admissible and *opting for less qualified low need or no need students.*

Enrollment Management & Financial Aid Leveraging

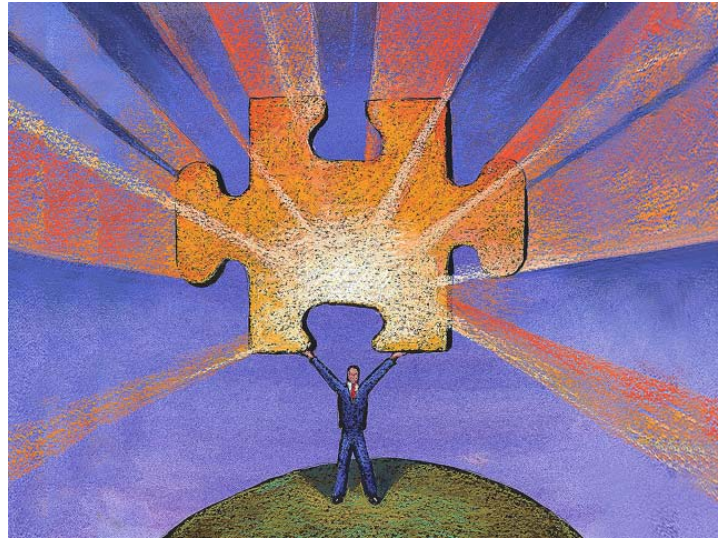
If you are looking for money, where is the risk? The opportunity?

Ability to Pay: College's assessment of FAFSA and/or CSS Profile

	Can afford 75% – 100% COA A	Can afford 50% - 75% COA B	Can afford 25%-50% COA C	Can afford 10% - 25% of COA D
Top 25% 1	Merit \$\$\$\$ (If available)	Grant \$\$\$\$	Grant \$\$\$\$	Grant \$\$\$\$
2 nd 25% 2	Merit \$\$ (If available)	Grant \$\$	Grant \$\$	Grant \$\$
3 rd 25% 3	Full Pay (Merit??)	Gapped -	Gapped +	Gapped +
4 th 25% 4	Full Pay	Gapped -	Gapped +	Gapped +

**Student
rank in
admitted
student
pool**

The Beginning



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