



Personal Finance: Another Perspective

Family 3: Financing your Children's Education and Missions

Updated 2017-07-07



Objectives

- A. Understand how education relates to goals
- B. Understand the principles of financing education and missions
- C. Understand the priority of money for financing school and missions
- D. Understand how to save for your children's education
- E. Understand how to save for children's missions
- F. Understand how to reduce the cost of education and apply for aid
- G. Understand how to prepare mission and education plans



A. Understand How Education Relates to Financial Goals

Median

<u>Level of Education</u>	<u>Annual Earnings*</u>	<u>Lifetime Earnings</u>
Not a HS graduate	\$24,325	\$973,000
High school Diploma	32,600	1,304,000
Some College, no degree	38,675	1,547,000
Associate's Degree	43,175	1,727,000
Bachelor's Degree	56,700	2,268,000
Master's Degree	66,775	2,671,000
Doctoral Degree	81,300	3,252,000
Professional Degree	91,200	3,648,000

*Annual earnings is lifetime earnings divided by 40 years.

Source: Anthony P. Carnevale, Stephen J. Rose, and Ban Cheah, "The College Payoff: Education, Occupations, Lifetime Earnings,"

Georgetown University Center for Education and the Workforce, 2012. 3



Does Education Pay?

- Is education a good investment?
 - President Gordon B. Hinckley said:
 - Now is the season to train your minds and your hands for the work you wish to do. Education can prove to be the wisest and most profitable investment you will ever make (*Tambuli*, Sept. 1989, 49).
 - He further counseled:
 - Get all the schooling you can. Education is the key that unlocks the door of opportunity. God has placed upon this people a mandate to acquire knowledge “even by study and also by faith” (D&C 88:118) (“Some Thoughts on Temples, Retention of Converts, and Missionary Service,” *Ensign*, Nov. 1997, 49).



Is Education Cheap?

- Cost Facts:
 - Average NR U.S. medical school tuition/fees in 2016-2017 was \$58,668 for public schools and significantly higher for private schools
 - 2017 average top 20 MBA programs tuition and fees: >\$123,150 (varies by school)
 - Avg. cost in tuition, fees and lost salary: >\$250,000
 - Annual budget for students of BYU in 2017-2018
 - Undergraduate \$18,430 (LDS), \$22,928 (non-LDS)
 - Graduate \$26,680 (LDS), \$33,560 (non-LDS)
 - MSM/Law \$33,472 (LDS), \$46,152 (non-LDS)
- Education isn't cheap, but the cost of ignorance is higher!⁵



Should You Pursue an Education?

President Hinckley said:

- You young people, the little decisions that you make can so affect your lives. Shall I go to school or not? Shall I continue on with my education? That is a big decision for some of you. Our doctrine suggests, although there may be some circumstances that would affect that decision, that the more education you receive the greater will be your opportunity to serve. That is why this Church encourages its young people to get the schooling that will qualify them to take their places in the society in which they will become a part. Make the right decisions. Take a long look (Pocatello, Idaho, regional conference, Idaho State University, 4 June 1995).



Should Children Pursue an Education?

President Hinckley further commented:

It is so important that you young men and you young women get all of the education that you can. The Lord has said very plainly that His people are to gain knowledge of countries and kingdoms and of things of the world through the process of education, even by study and by faith.

Education is the key which will unlock the door of opportunity for you. It is worth sacrificing for. It is worth working at, and if you educate your mind and your hands, you will be able to make a great contribution to the society of which you are a part, and you will be able to reflect honorably on the Church of which you are a member. My dear young brothers and sisters, take advantage of every educational opportunity that you can possibly afford, and you fathers and mothers, encourage your sons and daughters to gain an education which will bless their lives (Gordon B. Hinckley, "Inspirational Thoughts," *Liahona*, June 1999, 3).



B. Understand the Principles of Financing Education and Missions

- Principles of financing education and missions:
 1. Teach your children to be financially responsible
 2. Help your children to contribute to their own and other family member's missions and education
 3. If you choose to help, develop an education and mission plan that is consistent with your personal goals and budget and then follow it
 4. If you choose to help, start saving early for your children's education and missions
 5. If you choose to help, invest wisely and tax-efficiently consistent with your tolerance for risk



Principles (continued)

1. Teach your children to be financially responsible

- Teach them to work and to earn, consistent with their age and abilities
- Teach them to be accountable for their spending, just as they are for their words and thoughts
- Teach them to share the things they have—none of it belongs to us
- Teach them to be accountable for their spending
- Teach them that they earn money based on their working—not their whining



Principles (continued)

2. Help your children to save for their own (and other family member's) education and missions consistent with their abilities to earn

- Encourage your children to set savings goals and save for their own missions and education
- Set up investment or savings accounts for your children and help them contribute to these accounts
- Give your children opportunities to earn money that is earmarked, after paying the Lord, specifically for their missions and education
- Consider matching children's funds to encourage their contributions



Principles (continued)

3. If you choose to help, develop education and mission plans with and for your children
 - Develop education and mission plans, consistent with your personal goals and budget, and share them with your children
 - Determine how much you will help, what you will pay for, and what children must do to receive funds
 - Encourage your children to contribute. Plans which require work and contributions by children have a better chance of teaching desired principles
 - Set up investment accounts (vehicles) for your children and set aside funds each month to fund these accounts wisely



Principles (continued)

- 4. If you choose to help, start **NOW** (and early) to save
 - Begin now and early if you choose to help
 - The best time to begin saving for your children's education and missions was 20 years ago. The second best time is today. The *Law of the Harvest* takes time and is still in effect
 - Make saving a key part of your family budget—be an example to your children
 - Have your children begin now to help save for their own missions as you save for yours as well



Principles (continued)

- 5. If you choose to help, invest funds wisely and tax-efficiently consistent with your tolerance for risk
 - Use wisdom in your investments
 - Invest at a risk level you are comfortable with
 - Understand your available financial investment vehicles for education and missions
 - Use the investment vehicles which allow you to save the most on an after-tax basis (utilize tax benefits in your educational and mission savings plan)



C. Understand the Priority of Money for Education and Missions

- Is there a priority of money for financing education and missions?
 - Priority of Money for Educations and Missions
 1. Free Money
 2. Family Money
 3. Employment
 4. Loans
 5. Credit Cards (No!)
 6. Retirement Accounts (No!, No!, No!)



1. Free Money

- Get free money first--scholarships and grants
 - This is free money which is not paid back
 - If you have to pay money to get a scholarship or grant, it is generally a scam!
 - Grants are need-based--complete the FAFSA
 - Pell Grant: approximately \$606-\$5,920/year in 2017-2018
 - SEOG Grants – not available at BYU
 - Scholarships from schools and private sources
 - You may need a supplemental application
 - Find out which ones you are eligible for on a scholarship search engine and apply for each
 - Armed Forces Scholarships: See recruiting offices



2. Family Money

- Use personal savings and help from parents
 - If children pay for their education and missions, they will likely use their resources more wisely, as it's their money they are spending.
 - Start the process of financial self-reliance as soon as you can.
 - Do as much as you can to help your children, but don't do it all
 - If parents and grandparents can help, that is wonderful.
 - Express appreciation to anyone who helps!



3. Employment

- Have children work when possible to offset educational expenses
 - Most colleges offer federal College Work Study. Some universities, including BYU, provide thousands of student employment opportunities from their own funds.
 - Undergraduate students enrolled in 12+ semester hours should work no more than 20 work hours per week. This may cover rent and food expenses.
 - BYU students who work full-time at \$10/hr while living free at home for 4 months will earn tuition for two semesters.
 - High school students should work no more than 0-10 hours per week while in school. Working more hours reduces GPA and likelihood of attending college. It also increases likelihood of promiscuity, drug abuse and alienation from family and faith.
 - Working summers to save for mission and college is desirable.



4. Loans

- Use (all) loans wisely
 - There are five main items to be aware of:
 - a. Who pays the interest during school?
 - The borrower or the government?
 - b. When must you start paying back the loan?
 - Immediately or after graduation?
 - c. Who takes out the loan?
 - You or your parents?
 - d. What is the interest rate cap?
 - What is the highest rate you may pay?
 - e. What are the amounts available and costs?
 - What are all the costs: fees, interest, etc.?



Loans (continued)

- Subsidized Loans (2017-2018)
 - Subsidized Federal Loans
 - Direct Subsidized Loans (direct from Federal government—undergraduates only)
 - a. Government pays interest while student is enrolled in school at least half-time
 - b. Repayment begins 6 months after student graduates or drops below half-time enrollment
 - The 6-month grace period is preserved and starts over at zero if the student returns to half-time enrollment before the 6 months expire, therefore the student controls when repayment begins



Loans (continued)

- Direct Subsidized Loans (continued)
 - c. Loan is in the student's name
 - d. For 2017-2018, the interest rate is fixed at 4.45%. No interest accrues (grows) while enrolled in school at least half-time nor during the 6-month grace period. Thereafter, simple interest accrues at 4.45% APR
 - e. Direct Subsidized Loan amounts range from \$100 to \$5,500 (for undergraduates only).
 - f. 1.069% origination fee applies



Loans (continued)

- Subsidized Loans
 - Subsidized University Loans:
 - Woolley Law Loan (BYU Law School)
 - For full-time law students (usually for externships or bar study courses)
 - a. Interest is 6.5% fixed for 120 months, and no interest is paid while in school
 - b. Payments and interest begin 9 months after graduation or discontinuance of full-time status
 - c. Loans are in the student's name
 - d. Credit check required



Loans (continued)

- Marriott School Loan (BYU Marriott School of Management) for full-time MSM graduate students
 - a. No interest is paid while in school
 - b. Payments and interest begin 6 months after graduation or discontinuance of full-time status
 - c. Loans are in the student's name
 - d. Interest rate is 5.75% fixed for 60 months
 - Credit check required



Loans (continued)

- Subsidized Loans
 - Subsidized University Loans (2017-2018):
 - BYU Short-Term Loans for Tuition
 - For part- and full-time students admitted to a degree-seeking program
 - a. Must be repaid within the *same* semester loan is received
 - b. Loans are in the student's name
 - c. No interest, but a \$20 fee is applied



Loans (continued)

- Unsubsidized Loans (2017-2018)
 - Unsubsidized Federal Loans
 - Direct Unsubsidized Loans (for both grads and undergrads)
 - a. Student responsible for interest during school
 - b. Repayment begins six months after student graduates, discontinues, or drops below half-time enrollment for a continuous 6 months
 - c. Loan is in student's name
 - d. Fixed interest rate of 4.45% for undergraduates, and 6.00% for graduates
 - e. 1.069% origination fee applies
 - f. Maximum amounts \$12,500 for undergraduates and \$20,500 for graduates



Loans (continued)

- Unsubsidized Loans
 - Unsubsidized Federal Loans
 - Direct PLUS Loan: Available for parents of undergraduate, dependent students to help with school-related expenses.
 - a. Parent is responsible for interest during school
 - b. Repayment begins immediately, but can be deferred until 6 months after student graduates, discontinues, or drops below half time
 - c. Parent is the borrower
 - d. Interest rate is 7.00% fixed APR charged from first disbursement
 - e. There is an origination fee 4.276%, a credit check for approval, and a FAFSA is required. Parents can borrow up to cost of education less other financial aid the student receives



Loans (continued)

- Unsubsidized Loans
 - Direct Unsubsidized Federal Loans
 - Grad PLUS Loan: Available for graduate students to help with school-related expenses
 - a. Student is responsible for interest during school
 - b. Repayment begins six months after student graduates, discontinues or drops below half time
 - c. Graduate student is the borrower
 - d. Interest rate is 7.00% fixed APR charged from first disbursement
 - e. Requires a credit check for approval, FAFSA, and a 4.276% origination fee. Student can borrow up to cost of education less other financial aid the student receives



Loans (continued)

- Unsubsidized Loans

- Private Alternative Loans

Caution -- these unsubsidized loans can be *much more expensive* than federal unsubsidized loans

a. Interest starts immediately and accrues

b. Must often begin paying the loan back immediately

c. Student is the borrower

d. Interest rates are higher than Federal loans and there is no interest rate cap. A 14.5% variable interest rate means loan amount can double in five years (Rule of 72)

e. These have higher up-front fees and may require a cosigner. Read the fine print **VERY CAREFULLY**



Loan Comparison

Federal Direct Loans

- Subsidized 4.45% fixed *
- Unsubsidized 4.45% * or 6.00% ** fixed
 - Like a credit card
- Principle:
 - Federal Stafford, PLUS, Grad PLUS =
Less Costly

Note:

* = undergraduate

** = graduate

Private – Alternative

- 14.5% variable
- Double in 5 years
- Unsubsidized only
 - Like a credit card
- Principle:
 - Private =
More Costly
 - APR limit = 25% to
Infinity



Loans (continued)

- General rule: federal loans are generally less expensive than private, non-federal loans and a better choice if borrowing is necessary
 - Federal loans enjoy some tax-payer subsidy and have flexible repayment options
 - Beware of aggressive marketing campaigns of private-alternative loans
 - These are very expensive and often catch the unprepared or unaware



Federal Grants and Loans

- Federal Financial Aid Options
 - Federal grant and loan recipients must:
 - Be a citizen, permanent resident, or eligible non-citizen with a valid social security number
 - Have a high school diploma, (GED), or its equivalent
 - Be admitted as a regular student in an eligible degree or certificate-seeking program
 - Register or have registered for [Selective Service](#) for males
 - Complete the Free Application for Federal Student Aid (FAFSA)



Federal Loans and Grants (continued)

- Additional requirements for Pell and Direct Loans:
 - Be making satisfactory academic progress (SAP),
 - Not be in default on a federal student loan or grant
 - Additional requirements for Pell and Direct Loans:
 - Pell Grant Eligibility
 - Not already have a baccalaureate degree
 - Direct Loan Eligibility
 - Undergraduates and graduates; also post-baccalaureate students enrolled in courses required for admission to a graduate program or enrolled in a program leading to a certificate, may be awarded for up to one year



Federal Loans and Grants (continued)

- Individual Development Accounts (IDA)
 - Matching resources from local and other sources to encourage saving (2017 limits apply):
 - Match \$3 (up to \$4,500) for each \$1 you save
 - You save \$1,500 max. (\$15-62.50/month)
 - They give \$4,500, the total \$6,000
 - Must use for education, or home purchase, or to start a business
 - Must be in the program for 12 to 36 maximum
 - Must attend basic money management class (BYU's Fin418 counts), reside in Utah, be 18 or older, have income to save and meet needs criteria. For information, see www.uidan.org or (877) 787-0727



Federal Loans and Grants (continued)

- IDA Limits

- The following are income eligibility by family size. Participants must have no more than \$10,000 in net assets excluding one car and one house (2017)

<u>Family Size</u>	<u>Income</u>	<u>Family Size</u>	<u>Income</u>
1	\$24,120	5	\$57,560
2	\$32,480	6	\$65,920
3	\$40,840	7	\$74,280
4	\$49,200	8	\$82,640

* For families with more than 8 children, add an additional \$8,120 for each person

- Proceeds may be used to purchase one of 4 productive assets: first homes, business start-up, post secondary education including vocational training, and assistive technology for work related activities

Source:<http://faircredit.org/services/individual-development-accounts/>



5. Credit Cards (No!)

- Credit Cards and Payday Loans
 - Among the most expensive way to borrow
 - They require you to pay it back immediately
 - There is no help in the payment of interest
 - The interest rates are extremely high and you are in school
 - These are ***not*** advisable ways to finance schooling and are usually the result of poor planning!!!



6. Retirement Accounts

- Taking money from retirement accounts is **NOT NOT NOT NOT NOT** recommended to help pay for your children's education
 - (Do you get the hint?)
 - Your first priority is to save for retirement for you and your spouse
 - Then and only then, if resources are available, to help your children with their education
 - Try to find other alternatives. This is expensive, not tax efficient, and is not a good option *to even think about*



D. Understand How to Save for Your Children's Education

- College Savings Plans

- Five major ways to save for college:

- With tax benefits

1. Series EE and Series I Government bonds
2. Education Savings Account (Education IRA)
3. 529 Prepaid Tuition Plan
4. 529 Savings Plan

- No tax benefits

5. Tax-Efficient Investing
6. Custodial Accounts (UGMA/UTMA)



1. Series EE and Series I Bonds

- Advantages:
 - Earnings are tax-free if used for paying tuition and fees (I bond rates are 1.98% and EE bonds are 0.1% until November 1, 2017)
 - Earnings are not taxed until bonds are cashed
 - Can be purchased in small denominations
- Disadvantages:
 - 3-month penalty on early withdrawal before 5 years, with minimum holding period of 1 year
 - \$10,000 per year maximum purchase per year per SSN (and \$5,000 more if use your tax refund)
 - For tax-free status, principle and earnings can only be used for tuition and fees, not other expenses



EE/I Savings Bond Phase-out Limits

- If your income is above specified limits in the year bonds are cashed, you cannot exclude the interest income from your income taxes. The limits are:

<u>Year</u>	<u>Filing Single</u>	<u>Married Filing Jointly</u>
2013	\$74,700-89,700	\$112,050-142,050
2014	\$76,000-91,000	\$113,950-143,950
2015	\$77,200-92,199	\$115,751-145,749
2016	\$77,550-92,550	\$116,300-146,300
2017	\$78,150-93,150	\$117,250-147,250

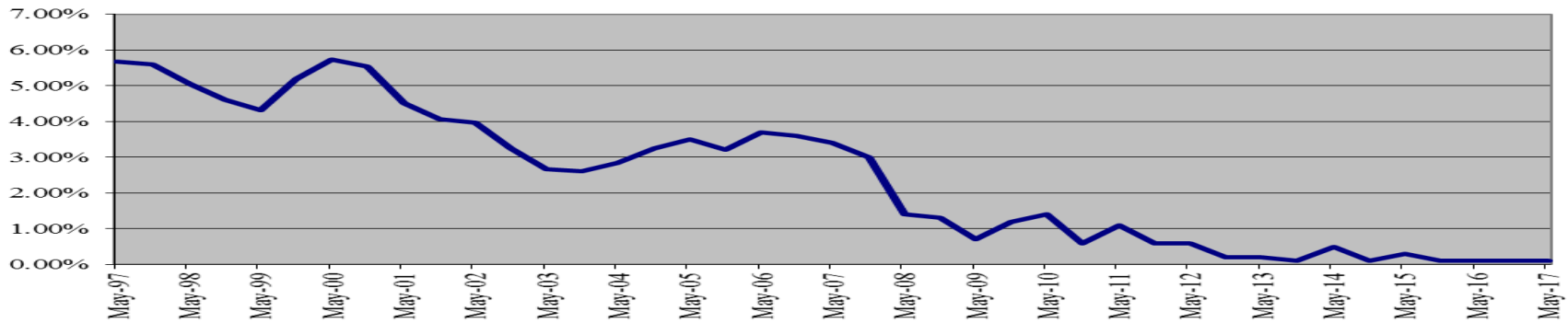
- Your modified Adjusted Gross Income is your adjusted gross income adding back certain items such as foreign income, foreign-housing deductions, student-loan deductions, IRA-contribution deductions and deductions for higher-education costs.



U.S. Series EE Bonds/I over Time

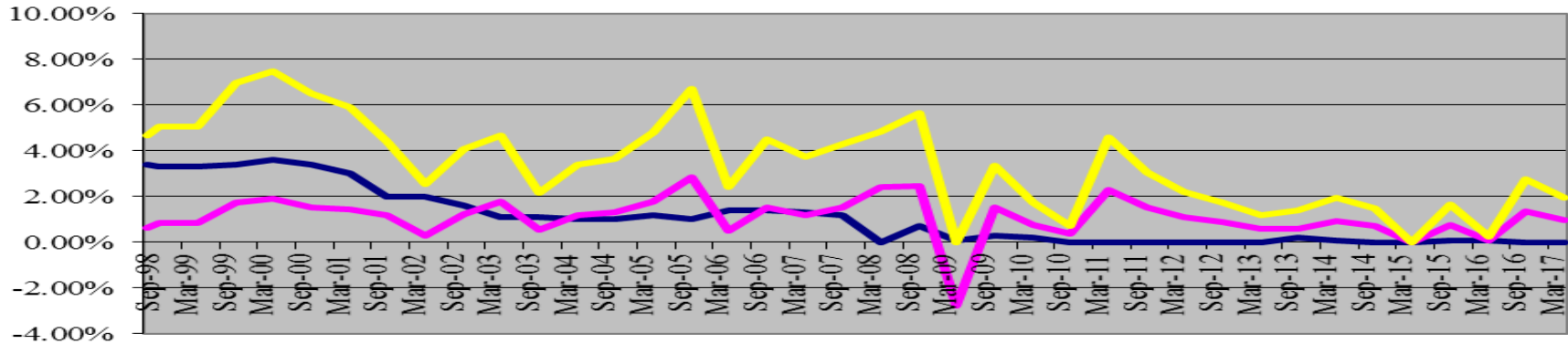
U.S. Series EE Bonds

— Rate



U.S. Series I Bonds

— Fixed — Inflation — Total





2. Education Savings Account (Coverdell)

- Advantages:
 - Distributions are tax-free (even beyond 2017).
 - You choose your investments.
 - Can be used for eligible elementary, secondary and post-secondary education expenses.
- Disadvantages
 - Contribution limits of \$2,000 per year in 2017, which may phase out as your income (MAGI) increases beyond specific limits (\$95-110k single, \$190-220k married filing jointly).
 - Funds must be used by age 30 (but can be transferred to other students). Earnings not used for educational expenses are taxed with a 10% penalty



Education IRA Deductibility Limits

Education IRA	MAGI Phase Out Range (in 000's)		
<u>Year</u>	<u>Amount</u>	<u>Single Range</u>	<u>Married FJ Range</u>
2013	\$2,000	\$95-\$110	\$190-\$220
2014	\$2,000	\$95-\$110	\$190-\$220
2015	\$2,000	\$95-\$110	\$190-\$220
2016	\$2,000	\$95-\$110	\$190-\$220
2017	\$2,000	\$95-\$110	\$190-\$220

- Your Modified Adjusted Gross Income is your adjusted gross income and adding back certain items such as foreign income, foreign-housing deductions, student-loan deductions, IRA-contribution deductions and deductions for higher-education costs. Earnings beyond these limits (\$95k single and \$190k jointly) result in a phase out of allowable interest deductions, which totally phase out at \$110k⁴¹ and \$220k).



3. 529 Prepaid Tuition Plan

- Advantages:
 - You know tuition will be covered, regardless of raises in costs of tuition
 - May be useful if you think your children will not be eligible for financial aid. Can save up to a total account balance maximum per child of \$430,000 maximum per child in 2017 (Utah)
- Disadvantages:
 - May not be offered in the state you/your child wants to attend
 - Does not allow you to choose your investments
 - You could be more aggressive with your money, resulting in higher returns
 - Assets reduce financial aid dollar for dollar



4. 529 Savings Plan

- Advantages:
 - Control of the funds resides with the contributor, who chooses the assets within options provided.
 - Distribution and contribution limits are higher, not considered student assets, increasing aid
 - States may offer tax deductions for contributions to your local 529 funds (check by state)
 - Distributions are tax-free if used for qualified educational expenses (\$430,000 maximum in 2017)
- Disadvantages:
 - May not cover all college expenses
 - If not used for educational expenses, earnings subject to tax and 10% penalty



529 Savings Plan (continued)

- Is there a minimum contribution?
 - Generally no
- Is there a maximum contribution?
 - Contributions are considered a gift.
 - Individuals can gift \$14,000 per year in 2017 (\$28,000 per couple) without incurring federal gift tax
 - Individuals can contribute \$70,000 in one year (\$140,000 per couple) without incurring a federal gift tax, but the gift is treated as if it was made over 5 years



Different States 529 Savings Plans

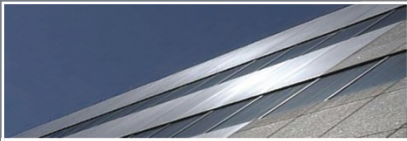
- When determining which 529 Plan to use, start with a review of your state's 529 plan (Utah's Plan is at www.uesp.org)
 - Check the fees (at the Plan and Fund level)
 - Check for any tax benefits (Utah has a 5% tax credit against your Utah State tax in 2017)
 - Check for investment assets and options
 - Check for the maximum amount you can invest per child
- Once you have reviewed your state's plan, read about other state's plans and select the best plan to meet your needs and goals



College Savings Plans Comparison Chart Coverdell

and 529 information From Robert Brokamp, the Motley Fool.com, May 1, 2002

College Savings Plans Comparison Chart					
	Custodial Account	Series EE/I	Coverdell ESA	529: Prepaid Tuition	529: Savings Plan
Highlights	Can be open by anyone		An investment account available to contributors who earn less than \$110K (for single filers) and \$220K (for joint filers)	Contributions today are guaranteed to cover tuition costs in the future.	A state-sponsored investment account for the benefit of anyone -- your child, your cousin, your neighbor, yourself
Offered by ...	Brokerages, mutual fund companies, banks	US Government	Brokerages, mutual fund companies, banks	States	States (usually with help from a financial services companies)
Contribution limit	None	\$20,000 per year for EE and I bonds combined (10k each)	\$2,000 per student per year	Depends on plan and age of student	Depends on plan -- varies from \$300,000 to \$390,000
Tax treatment of withdrawals	No favorable tax treatment	Tax-free if used for qualified expenses and if your income is within the government set limits. Taxes may be either paid annually or when redeemed.	Tax-free if used for qualified expenses	Tax-free if used for qualified expenses	Tax-free if used for qualified expenses until 2012 (distributions will count as income to the student in 2012 and beyond unless Congress extends the current law)
Qualified expenses	None	Tuition, fees, supplies and special needs. Room and board are not qualified expenses. The amount of qualified expenses are reduced by scholarships and other aid.	Tuition, room, board, fees, supplies, and special needs related to the attendance of a qualified elementary, secondary, or post-secondary institution	Tuition at a college within the plan (some plans will also cover room and board)	Tuition, fees, room, and board at qualified higher-education institutions
Source of Information:	Charles Schwab	www.Treasurysdirect.gov	MotleyFool.com	MotleyFool.com	MotleyFool.com

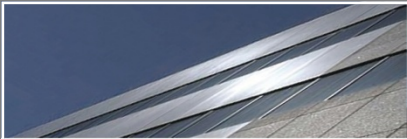


College Savings Comparison (continued)

College Savings Plans Comparison Chart

	Custodial Account	Series EE	Coverdell ESA	529: Prepaid Tuition	529: Savings Plan
Tax-deductibility	None	None	None	Some states allow contributions to be partially or completely deductible.	Some states allow contributions to be partially or completely deductible.
Investment flexibility	Assets can be invested in stocks, bonds, mutual funds, and cash equivalents. Investments can be bought and sold as often as desired.	Bonds must be held at least 5 years for full interest. An interest penalty of 3 months will be assessed on all bonds cashed before 5 years.	Assets can be invested in stocks, bonds, mutual funds, and cash equivalents. Investments can be bought and sold as often as desired.	Plan administrators invest all assets.	Assets are professionally managed. Depending on the plan, participants can choose from two to almost 30 mutual fund-type investments. Investment choice may be changed once every 12 months.
Ability to transfer account	None	None	Account may be transferred to other brokerage or mutual fund, or to a 529 plan, subject to fees and penalties.	Depends on plan	May transfer to another 529 plan once every 12 months
Interaction with Hope and Lifetime Learning Credits	None	None	Credits can be claimed in the same year as tax-free withdrawal provided that the distribution is not used for the same expenses for which a credit is claimed.	Credits can be claimed in the same year as tax-free withdrawal provided that the distribution is not used for the same expenses for which a credit is claimed.	Credits can be claimed in the same year as tax-free withdrawal provided that the distribution is not used for the same expenses for which a credit is claimed.

Source of Information: Charles Schwab www.Treasurydirect.gov MotleyFool.com MotleyFool.com MotleyFool.com



College Savings Comparison (continued)

College Savings Plans Comparison Chart

	Custodial Account	Series EE	Coverdell ESA	529: Prepaid Tuition	529: Savings Plan
Effect on financial aid	Considered to be an asset of the student, which means a large portion of the assets will be considered in the financial aid calculation	Assets are considered to be property of the account owner, which -- unless the owner is also the beneficiary -- means only a small portion of the assets will be considered in the financial aid calculation	Considered to be an asset of the student, which -- means a large portion of the assets will be considered in the financial aid calculation	Considered to be the student's resource and thus reduces financial aid dollar-for-dollar	Assets are considered to be property of the account owner, which -- unless the owner is also the beneficiary -- means only a small portion of the assets will be considered in the financial aid calculation
Control of the account	In most states, account assets become property of the student at age 18.	In most states, control of account will always remain with contributor.	In most states, account assets become property of the student at age 18.	In most states, control of account will always remain with contributor.	In most states, control of account will always remain with contributor.
Must use funds by...	No age limit	No age limit	Age 30	Varies by plan	Varies by plan
Assignability to other relatives			Immediate family, including cousins, step-relatives, and in-laws	Immediate family, including cousins, step-relatives, and in-laws	Immediate family, including cousins, step-relatives, and in-laws
Penalty for non-qualified withdrawals	None	Selling before 5 years results in a 3 month interest penalty	Earnings are taxed as ordinary income to contributor, plus a 10% penalty	Earnings are taxed as ordinary income to account owner, plus a 10% penalty	Earnings are taxed as ordinary income to account owner, plus a 10% penalty
Contribution deadline	None	None	Tax-filing deadline for the year of the contribution	Depends on the plan	Depends on the plan

Source of Information: Charles Schwab www.Treasurydirect.gov MotleyFool.com MotleyFool.com MotleyFool.com



5. Tax-efficient Investing

Four ways to invest tax-efficiently:

1. Know your tax rates. Calculate the after-tax return on each of your investments
2. Invest long-term. Replace interest/short-term distributions with long-term capital gains/LTCG distributions
3. Invest wisely. Replace interest/short-term distributions with qualified stock dividends/stock distributions (consistent with your risk tolerance)
4. Receive tax-exempt income. Purchase muni/Treasury securities when rates are more attractive than other securities



Tax-efficient Investing (continued)

- Advantages:
 - Can be invested in all types of financial assets, stocks, bonds, mutual funds, etc.
 - Can be used for any educational, mission, or other expense
 - Parent has control of the assets and can use them for any purposes
 - Investments can be made which minimize taxes
- Disadvantages:
 - No tax advantages



6. Custodial Accounts: UGMA/UTMA

- Advantages:
 - Can be invested in all types of financial assets, stocks, bonds, mutual funds, etc. UTMA has fewer restrictions and may include real estate
 - Can be used for any educational or other expenses, including missions
- Disadvantages:
 - No tax advantages. Currently taxed at parent's rate until child is 18 years old
 - Is considered the child's money as soon as the child is of age—it cannot be taken back by the issuer
 - I prefer a tax-efficiently invested account



E. Understand How to Save for your Children's Missions

- There are fewer ways to save for children's missions
 - 1. Tax-efficiently Invested Assets (with account names to remind you of their purpose)
 - 2. Custodial accounts: UGMA/UTMA (Not Recommended)



1. Tax-efficient Investing

Four ways to invest tax-efficiently:

1. Know your tax rates. Calculate the after-tax return on each of your investments
2. Invest long-term. Replace interest/short-term distributions with long-term capital gains/LTCG distributions
3. Invest wisely. Replace interest/short-term distributions with qualified stock dividends/stock distributions (consistent with your risk tolerance)
4. Receive tax-exempt income. Purchase muni/Treasury securities when rates are more attractive than other securities



Tax-efficient Investing (continued)

- Advantages:
 - Can be invested in all types of financial assets, stocks, bonds, mutual funds, etc.
 - Can be used for any educational, mission, or other expense
 - Parent has control of the assets and can use them for any purposes
 - Investments can be made which minimize taxes
- Disadvantages:
 - No tax advantages



2. Custodial Accounts: UGMA/UTMA

- Advantages:
 - Can be invested in all types of financial assets, stocks, bonds, mutual funds, etc. UTMA has fewer restrictions and may include real estate
 - Can be used for any educational, mission, or other expense
- Disadvantages:
 - No tax advantages. Currently taxed at parents rate until child is 18 years old
 - Is considered the child's money as soon as the child is of age (age 21 in Utah)—it cannot be taken back by the issuer
 - I prefer a tax-efficiently invested account



Questions

- Any questions on how to save for your children's missions?



F. How Do You Reduce the Cost of Your Kid's Education and Sign up for Aid?

1. Encourage parents to begin planning early.

- We will discuss various vehicles later in this class
- When they are born is not too soon

2. Fill out the FAFSA (Free Application For Federal Student Aid) on the net at www.FAFSA.ed.gov (easy to create/use an 'FSA ID' username and password).

- Follow the instructions and do it early (usually after your tax forms are completed). You may submit the FAFSA as early as January 1 for the fall term. The amount of your award at BYU is based on the FAFSA results and credit hours, not when you apply



Signing Up for Aid (continued)

3. Talk with your personal OneStop counselor at BYU (D-148 ASB)
 - Call their direct line for an appointment at 801-422-7075
 - They will guide you in the process and help you in determining your eligibility for aid

4. Look for other available aid on the web.
 - View the following sources and utilize them:



Helpful Websites Containing Information about Financing School

- Helpful Websites
 - Onestop.byu.edu
 - FinancialAid.byu.edu
 - Scholarships.byu.edu
 - nsfp.byu.edu
- BYU resources
 - BYU Counseling Center: Admissions, Financial Aid, Scholarships (801-422-4104 or 801-422-7025)
 - To have your federal aid in place by fall semester, it is wise to submit the FAFSA by June 1 the same year, unless you are planning to get married soon
 - Make an appointment with a counselor if you have questions



Resources for Financing School (continued)

- www.fafsa.ed.gov - Free Application for Federal Student Aid. This form must be filled out for any federal financial aid.
- nslds.ed.gov – provides student a centralized, integrated view of their Title IV loans and grants
- www.fastweb.monster.com – matches student profiles to a database of scholarships.
- www.collegeboard.com– connects student profiles to a database of scholarships, internships, and loans.



Resources for Financing School (continued)

- www.srnexpress.com – contains resources on scholarships, fellowships, internships, and loan forgiveness programs.
- www.wiredscholar.com – a good website for college preparation and information.
- www.finAid.org – a comprehensive site that has information on loans, scholarships and savings plans.



G. Preparing Mission and Education Plans

- As you think about developing mission and education plans, there are five key areas to consider. They are:
 - 1. Vision: How will you help? What do you want this help to accomplish? Why are you doing this?
 - 2. Goals: How much will you provide? What is the purpose for these funds?
 - 3. Plan: How will you save that amount? How much will you need? How much must you save?
 - 4. Constraints: Who is this available for? What must they do to obtain the help you are planning to give?
 - 5. Communication: How will you let your children know what you will and will not do?



Mission and Education Plans (continued)

- As you think through these five areas, this will help you to build the foundation for your mission and education plans for your children (and grandchildren)
 - These decisions should be made carefully and prayerfully with your spouse and within your family goals and budget
 - Following are a few ideas to help as you put your mission and education plans for your children and grandchildren



Mission and Education Plans (continued)

- If you choose not to help, ideas include:
 - Vision: Because we love you and believe in your ability to go on your mission and achieve your educational goals without our help, we're choosing not to contribute to your education and mission goals
 - Goals: We believe a mission and education are great goals but will mean more to you if you sacrifice to achieve them yourself, not if we make it too easy to attain
 - Plan: We will allow you to save for this goal and will give you opportunities to earn and save money
 - Constraints: None
 - Communication: We currently do not plan to have the resources saved to be able to contribute to these worthy goals, but we will help when and if we can



Mission and Education Plans (continued)

- If you choose to help with missions, ideas include:
 - Vision: We believe serving the Lord for 18 or 24 months will make a great difference in your life. It did mine
 - Goal: We will contribute \$_____ per month to help you with your mission. It will not cover your entire mission but it will help you get through with reduced needs
 - Plan: We will set aside ___% of our income after each child is born to help attain this important goal. We will pay for your mission with appreciated mutual funds which we have put in each child's taxable account (not custody accounts)
 - Constraints: If you are willing and worthy to go on a mission, we are willing to help
 - Communication: We want to help you with this worthy and wonderful goal once you are worthy and prepared



Mission and Education Plans (continued)

- If you choose to help with education, ideas include:
 - Vision: We believe that getting an education will make a great difference in life and make you better spouse, parent, and a contributor to the Kingdom and the world
 - Goal: We will contribute \$_____ per month to help you with tuition, books, and room and board. It will not cover your entire education but it will help you get through
 - Plan: We will set aside ___% of our income to help pay for your education through funds invested in I bonds, Education IRAs, 529 Plans, and taxable accounts invested tax efficiently
 - Constraints: This help is available for full-time students at an institute of higher learning (or trade school) as long as your previous semester GPA is a “C” or better and you are taking an LDS institute class.
 - Communication: We will help you with this worthy goal as long as you meet our constraints for help



Mission and Education Plans (continued)

- As with these types of plans, it is important area is that you have:
 - 1. Vision for what you want to do
 - 2. A goal for what you want to provide
 - 3. A plan for how you will attain the resources to be able to provide for what you wanted
 - 4. Any constraints that are necessary for the children or grandchildren to be able to receive this help
 - 5. A communicated plan to share that vision and goals with your children and grandchildren
- As you can tell from the previous examples, you can be very creative in the requirements to receive this help



Review of Objectives

- A. Do you understand the importance of how education relates to your financial goals?
- B. Do you understand the principles of saving for education?
- C. Do you understand how to save for your children's education?
- D. Do you understand the priority of money for financing school?
- E. Do you understand how to reduce the cost of education and sign up for aid?
- F. Do you understand how to prepare mission and education plans?



Case Study #1

Data

- Anne and Bryan, ages 35 and 38, are planning for their children's education. They are looking at the Education IRA, I bonds, and the 529 Savings Plan. They have three children, ages 2, 4, and 7, and make \$50,000 a year. They save 20% of their income for their goals, of which 3% is earmarked for their children's education. They would like any tax breaks they can now, as their cash flow situation is tight. Since they live in Utah, the Utah 529 Plan allows participants to deduct a 5% tax credit on contributions (up to \$1,920 for individuals and \$3,840 filing jointly in 2017) on their Utah State taxes (\$190 savings for MFJ).

Application

- Which education vehicle should they use and how much will they save in taxes?



Case Study #1 Answer

- For current benefits, they can receive a 5% tax credit on contributions up to \$1,920 totaling \$96 (\$3,840 and \$192 for married filing jointly in 2017). Assuming they put the entire planned amount in the 529 Savings Plan ($\$50,000 * 3\%$), they can contribute \$1,500 total, or \$500 per child. They would be able to deduct the $\$1,500 * 5\%$ or \$75 as a tax credit from their Utah state taxes--\$75 in free money
- If their concern is to save money, the preferred vehicle is the Utah 529 Savings Plan. They can contribute up to a maximum \$430,000 total per child (aggregate maximum) in 2017
- The Education IRA and I bonds have no current tax advantages, but they will save money on taxes in the future when they distribute tax free