



# Personal Finance: Another Perspective

## Family 3: Financing your Children's Education and Missions

Updated 2018-11-30



# Objectives

- A. Understand how education relates to goals
- B. Understand the principles and doctrines 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



# Your Personal Financial Plan

- Section XV: Children's Education and Mission Plans
  - What are your vision and goals to help your children with education and missions (use template PFP [Auto Home Education Mission Strategy](#) (LT14))
    - What are you planning to do?
    - What are your plans and strategies for your children's mission and education?
      - This may include how you will help, how much you will help, why you will help, etc.
    - What are your constraints and accountability



# 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. 4



# 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 2017-2018 was \$55,294 (public) and \$52,093 (private)
  - 2018 average top 20 MBA programs tuition and fees: >\$100,000 (varies by school)
  - Average cost in tuition, fees and lost salary: \$150,000
  - Annual budget for students of BYU in 2017-2018
    - Undergraduate \$18,430 (LDS), \$23,890 (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!



# 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

### 1. Teach your children to be financially responsible and model it yourself

- 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



## Principles (continued)

### 2. Teach your children to seek, receive and act on the Spirit's guidance

- Learn and teach your children to be obedient and have the Holy Ghost with them always
- Remember that the Holy Ghost and the scriptures can “show” and “tell” you all the things you should do (2 Nephi 32: 3,5)



## Principles (continued)

3. 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
- 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)

4. 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)

- 5. 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)

- 6. 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)



# Principles (continued)

## Finding Balance

### Principles

- Teach financial responsibility
- Seek, receive and act on guidance
- Teach children to save
- Develop mission/education plans
- If you choose to help, start now
- If help, invest your funds wisely

### Doctrines

- Agency
- Obedience
- Stewardship
- Accountability
- Stewardship
- Accountability



# Principles (continued)

## *From obedience to consecration*

- We are children of the most high God (identity), striving to live worthy of the Spirit (obedience), with the decision to help our children save for missions and education (agency). For those who choose to help (at least with part), we believe in the importance of helping our children work toward worthy mission and education goals (Plan of Salvation) and will help our children as we planned by saving and investing resources wisely (accountability) so we can help offset some of the costs of these worthy goals (agency), to help ourselves and our children attain our personal and family vision and goals.



## 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
  -



## 3. Employment

- Have children work when possible to offset educational expenses
  - 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.
  - 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 is 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 the 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)

- Final Thoughts on Loans and Borrowing:
  - *Use subsidized Federal loans first.* Federal loans are generally less expensive than private, non-federal loans. They subsidize the interest during school, and are a better choice if borrowing is necessary
  - *Let the child borrow.* Parents should not put their retirement at risk for their children's education
  - *Let the child work a semester.* This may not only help the child save money, but teach the importance of earning and spending wisely
  - *Avoid private-alternative loans.* Beware of aggressive marketing campaigns by these companies. These loans are very expensive



# Federal Loans and Grants (continued)

- Individual Development Accounts (IDA)
  - Matching resources from local and other sources to encourage saving (2018 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](http://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 (2018)

<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 2.83% and EE bonds are 0.1% until April 31, 2019)
  - 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>
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
2018	\$79,700-94,700	\$119,550-149,550

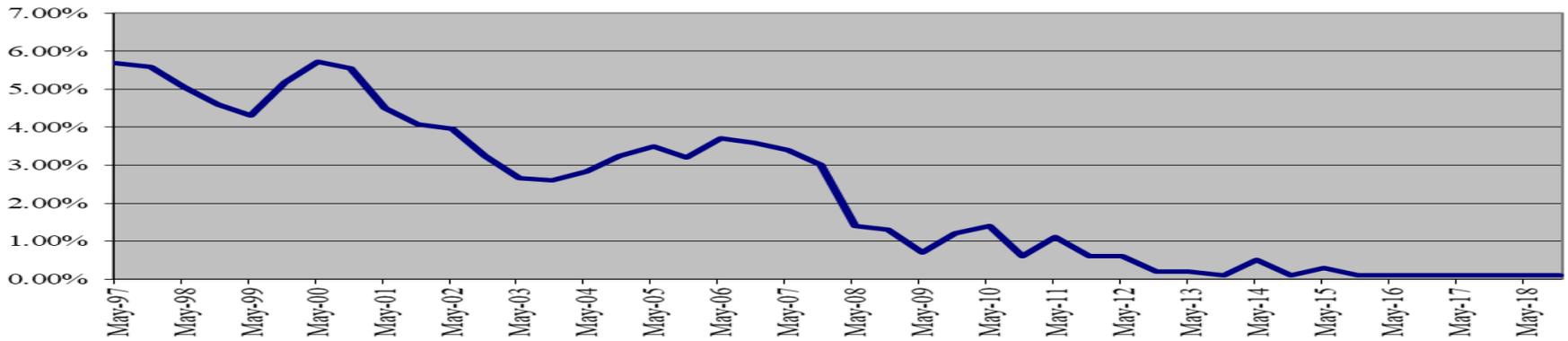
- Your modified Adjusted Gross Income is your adjusted gross income adding back certain items such as foreign income, foreign-housing deductions, student-loan deductions, IRA-contribution deductions and deductions for higher-education costs.



# U.S. Series EE Bonds/I over Time

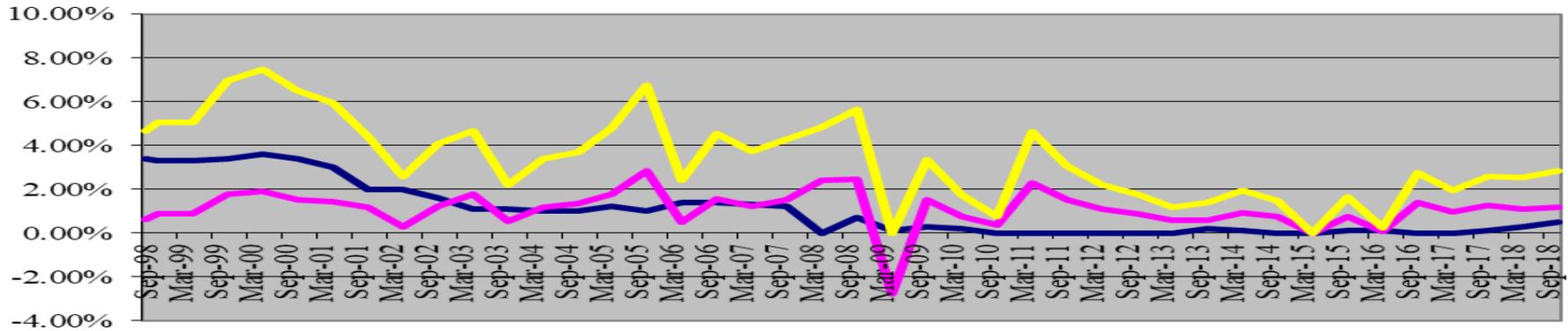
**U.S. Series EE Bonds**

— Rate



**U.S. Series I Bonds**

— Fixed — Inflation — Total





## 2. Education Savings Account (Coverdell)

- Advantages:
  - Distributions are tax-free (even beyond 2018).
  - 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 2018, 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>
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
2018	\$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 \$110k<sup>45</sup> 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 \$446,000 maximum per child in 2018 (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 (\$446,000 maximum in 2018)
- 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 \$15,000 per year in 2018 (\$30,000 per couple) without incurring federal gift tax
    - Individuals can contribute \$75,000 in one year (\$150,000 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.my529.org](http://www.my529.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 2018 up to \$1,960 Single and \$3,920 for MFJ for \$98 and \$196 of free money)
  - Check for investment assets and options, and 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

	Education or Mission: No Tax Benefits		Education Saving: With Tax Benefits			
	Taxable Account	Custodial Account (UGMA/UTMA)	Series EE/I	Education IRA	529: Prepaid Tuition	529: Savings Plan
<b>Highlights:</b>	Can be opened by anyone	Can be opened by anyone for a child - NOT RECOMMENDED as assets become the child's generally at age 18.	Can be considered a cash management, savings, and educational vehicles by contributor.	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
<b>Offered by:</b>	Brokerages, mutual fund companies, banks	Brokerages, mutual fund companies, banks	US Government	Brokerages, mutual fund companies, banks	States (usually with help from a financial services companies)	States (usually with help from a financial services companies)
<b>Contribution limits:</b>	None	None	\$10,000 per year for EE and I bonds and \$5,000 more if use tax refund	\$2,000 per student per year	Depends on plan -- Up to \$446,000 max per student	Depends on plan -- Up to \$446,000 max per student
<b>Income limits:</b>	None	None	Income limits apply if earnings are above limits in the year cashed MFJ \$119.55-149.55k	Contribution limits phase out if income exceeds MFJ \$190-220k	No income limits	No income limits
<b>Returns:</b>	Depends on what type of investments the account uses to invested. We recommend wisely investing in low-cost and tax-efficient mutual/index funds.	Depends on what type of investments the account uses to invested. We recommend wisely investing in low-cost and tax-efficient mutual/index funds.	EE bonds are 0.1% and I bonds are 2.83% for the 6 month period ending April 2019.	Depends on what type of investments the account uses to invested. We recommend wisely investing in low-cost and tax-efficient mutual/index funds.	These are invested by the College and guarantee tuition is fully paid upon the child's admittance.	Depends on the choice of assets and the allocation of those assets. Most state Plans give you options on how the funds are invested; however, you cannot invest outside given options.
<b>Tax-deductibility:</b>	None. However, wisely investing assets in low-cost and tax-efficient mutual/index funds can reduce taxes substantially	None. However, wisely investing assets in low-cost and tax-efficient mutual/index funds can reduce taxes substantially	Contributions are already taxed, so earnings and capital gains are state tax-free. However, if principle and interest are used for eligible education expenses, then both federal and state tax free.	Contributions are already taxed. If earnings and principle are used for eligible education expenses, then earnings are both federal and state tax-free.	Contributions are after-tax. Some states give a tax deduction for contributions to a certain limit. If principle and interest is used for qualified expenses, then earnings are both state and federal tax free.	Contributions are after-tax. Some states give a tax deduction for contributions to a certain limit. If principle and interest is used for qualified expenses, then earnings are both state and federal tax free.
<b>Effect on financial aid:</b>	Considered to be an asset of the parent, which means 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	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
<b>Investment flexibility:</b>	Assets can be invested in stocks, bonds, mutual funds, and cash equivalents available from the financial institution. Investments can be bought and sold as often as desired.	Assets can be invested in stocks, bonds, mutual funds, and cash equivalents available from the financial institution. 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 within the financial institution.	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.
<b>Qualified expenses:</b>	None	None	Tuition, fees, supplies and special needs. Room and board are not qualified expenses. Qualified expenses are reduced by scholarships and other	Tuition, room, board, fees, supplies, and special needs related to the attendance of a qualified elementary, secondary, or post-secondary	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
<b>Ability to transfer account:</b>	Very flexible	Very flexible	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
<b>Interaction with Hope and Lifetime Learning Credits:</b>	None	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.
<b>Control of the account:</b>	Contributor has full control of the assets	In most states, account assets become property of the student at age 18 so NOT RECOMMENDED.	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.
<b>Must use funds by:</b>	No age limit	No age limit	No age limit	Age 30	Varies by plan	Varies by plan
<b>Assignability to other relatives:</b>	Can be assigned to others	Cannot be assigned to others	Cannot be assigned to others	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
<b>Penalty for non-qualified withdrawals:</b>	None	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
<b>Contribution deadline:</b>	None	None	None	Tax-filing deadline for the year of the contribution	Depends on the plan	Depends on the plan
<b>Sources of information:</b>	<a href="http://schwab.com">schwab.com</a> , <a href="http://vanguard.com">vanguard.com</a> , etc.	<a href="http://schwab.com">schwab.com</a> , <a href="http://vanguard.com">vanguard.com</a> , etc.	<a href="http://Treasurydirect.gov">Treasurydirect.gov</a>	<a href="http://www.irs.gov">www.irs.gov</a> , <a href="http://vanguard.com">vanguard.com</a> , etc.	<a href="http://UESP.org">UESP.org</a>	<a href="http://UESP.org">UESP.org</a>



## 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](http://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](http://Onestop.byu.edu)
  - [FinancialAid.byu.edu](http://FinancialAid.byu.edu)
  - [Scholarships.byu.edu](http://Scholarships.byu.edu)
  - [nsfp.byu.edu](http://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](http://www.fafsa.ed.gov) - Free Application for Federal Student Aid. This form must be filled out for any federal financial aid.
- [nslds.ed.gov](http://nslds.ed.gov) – provides student a centralized, integrated view of their Title IV loans and grants
- [www.fastweb.monster.com](http://www.fastweb.monster.com) – matches student profiles to a database of scholarships.
- [www.collegeboard.com](http://www.collegeboard.com)– connects student profiles to a database of scholarships, internships, and loans.



## Resources for Financing School (continued)

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



## G. Understand and Create your Mission and Education Plans

- Following are a few ideas as you develop your mission and education plans



# Mission and Education Plans (continued)

- If you choose not to help with missions, ideas include:
  - Vision: Because we love you, believe in your ability to go on your mission without our help, and we won't likely have the funds, we're choosing not to contribute financially to your mission
  - Goals: We believe a mission is a great goal but will mean more to you if you sacrifice to achieve it 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
  - Accountability: We currently do not plan to have the resources saved to be able to contribute to this worthy goal, 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.
    - Missions are great ways to thank the Lord for His goodness and love
  - Goals
    - We will begin teaching the importance of serving missions at an early age
    - We will offer opportunities to earn money to save for missions
    - We will support you as much as is possible given our financial situation



# Mission and Education Plans (continued)

- Plans and Strategies
  - We will set aside \_\_\_% of our income after each child is born to help attain this important goal
  - We will pay for missions with appreciated mutual funds which we have put in each child's taxable account (not custody accounts)
  - We will contribute \$\_ per month to help you with missions.
  - Our help will not cover your entire mission but it will help you get through with reduced needs
  - We will match you 2 for 1 (or some multiple) of the amount of money you save for your mission
- Constraints and Accountability: Same as previous



# Mission and Education Plans (continued)

- If you choose not to help with education, ideas include:
  - Vision: Because we love you and believe in your ability to achieve your educational goals without our help, we're choosing not to contribute financially to your education
  - Goals: We believe an education is a great goal but will mean more to you if you sacrifice to achieve it 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
  - Accountability: 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 education, ideas include:
  - Vision
    - We believe that getting an education will make a great difference in life.
    - A good education will help make you better spouse, parent, and a contributor to the Kingdom and the world
  - Goals
    - We will begin teaching the importance of getting an education at an early age
    - We will offer opportunities to earn money to save for education
    - We will support you as much as is possible given our financial situation for your education

## Mission and Education Plans (continued)

- Plans and Strategies
  - We will set aside \_\_\_% of our income after each child is born to help attain this important goal
  - We will pay for education with 529 Savings Plans, Education IRA Savings Accounts, and taxable accounts for weddings and other needed items
  - We will contribute \$\_ per month into a 529 Plan to help you with your education
  - We will match you 2 for 1 (or some multiple) of the amount of money you save for your education
  - Our help will not cover your entire education but will help you get through with reduced needs
  - Any scholarships are assumed you have earned
- Constraints and Accountability: Same as previous



# 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 \$1,960 for individuals and \$3,920 filing jointly in 2018) on their Utah State taxes (\$196 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 \$1,960 totaling \$98 (\$3,920 and \$196 for married filing jointly in 2018). 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 \$446,000 total per child (aggregate maximum) in 2018
- 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