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College Planning

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“Because the expense of saving and paying for college is a significant one,... deciding how to pay for college is a family affair. “

McCarthy Asset Management, Inc. is an independent, fee-only investment advisory firm that has been helping people invest wisely for over fifteen years. Our mission is to help you better understand and improve your financial situation. We specialize in Retirement Planning, Portfolio management and Tax Planning.



Next to the gift of life and proper upbringing, education is arguably one of the most valuable gifts a parent can give to a child. It is also a gift that keeps on giving. According to the 2011 [American Community Survey](#), an undergraduate degree translates to more than \$1 million additional earnings over a lifetime and a doctorate degree to over \$2 million. [The unemployment rate for college graduates](#) is just half that of those who never graduated. There have even been studies linking a college education to [longer, happier and healthier lives](#).

However a college education is not cheap. After factoring in tuition, fees, room & board and other costs, [the annual price tag for a college education](#) comes close to \$22,500 for a public in-state school in California and \$60,000 for a private school. Historically, those costs have grown at a [faster pace than general inflation](#). Put another way, in order to save up enough to fully pre-fund a 4-year education at a private university, a family must save as much as \$850 a month starting on the child's first birthday.

Because the expense of saving and paying for college is a significant one, it requires careful and detailed planning. Furthermore, deciding how to pay for college is a family affair. The family's financial condition and who owns the various financial assets may affect financial aid eligibility. Various instruments receive different tax treatments and come with both advantages and limitations. A comprehensive discussion is beyond the scope of this article, but here is a summation of the major borrowing and investment options:

Financial Aid, Grants and Scholarships are need-based and merit-based awards to students that do not have to be repaid. They can come from the federal or state governments, non-profits, private organizations or colleges themselves. Some of the grants include [Federal Pell Grant](#), [FSEOG](#), and [TEACH grants](#). Note that most MAM clients would not be eligible for need-based aid due to their income being too high.

Student Loans and Work-Study Programs allow students to borrow or earn additional funds to pay for their education. Student loans usually have advantageous rates and flexible repayment options. Choices include [Federal Perkins Loan](#), [Stafford Loans](#) (subsidized and unsubsidized) and [Direct Plus Loans](#).

College Savings Instruments- for those who want to save up for college, the

Our Services

Investment Management Services:

- MAM creates and manages customized investment portfolios based on each client's investment objectives, timeframe and risk tolerance.

Financial Planning Services:

- The Net Worth Analysis (NWA) tracks the accumulation of Invested Assets for pre-retirees and the retention of Invested Assets for retirees. Updated annually.
- "Retirement Analysis" a comprehensive analysis of your retirement goals, which produces easy-to-read, interactive working plan, stored in the cloud. Updated as needed for life events.

Tax Services: Clients have the option of utilizing the income tax services provided through the firm Stephen P. McCarthy, CPA. These services are offered at an hourly rate and may include:

- Tax Return Preparation
- Income Tax Projections
- Tax Minimization Ideas
- Tax Authority Representation

Other Services: MAM has retained several outside experts, whose services are available at no cost to our clients:

- Long Term Care Planning– Allen Hamm of Superior LTC Planning Services, Inc.

- **College Savings Instruments-** for those who want to save up for college, the following saving and investing options are available:
 - **529 College Saving Plans-** a savings plan that allows for customized investing, tax-deferred growth and tax-free withdrawals for higher education, subject to rules and conditions. This is one of the most robust and flexible choices available today.
 - **UTMA/UGMA Custodial Accounts-** a custodial account for the child, which has to be used for the child's benefit (not necessarily education) and becomes property of the child once he or she assumes the age of majority (generally either "18" or "21", depending on how the account was set up).
 - **Coverdell Education Savings Accounts-** these allow for tax-free growth for any level of education, subject to age and contribution limits.

Tax Considerations- understanding the **tax implications of educational savings and expenses** is also key.

- Federal Tax Credit– The American Opportunity Credit and Lifetime Learning Credit allow eligible taxpayers to claim qualified expenses up to \$2,000 or \$2,500 per year (not available for higher income taxpayers).
- Student Loan Interest Deduction- allows qualified taxpayers to deduct up to \$2500 per year in student loan interest (not available for higher income taxpayers).
- State Tax Deduction- a few states (California is not one) allow 529 Plan contributions to be deductible for state tax purposes.
- Tax-Free Instruments- Contributions to 529 Savings Plans and Coverdell Education Savings accounts, while not deductible, allow for tax-deferred growth and tax-free withdrawals for qualified expenses.

Based on what we have seen, most MAM clients are not able to save up enough to fully pay for college and yet earn too much to be eligible for financial aid. Don't be discouraged, though. Saving what you can starting when your kids are very young will help in reducing what you need to come up with out-of-pocket once they are in college.

Planning for college does not have to be complicated or intimidating. There is a wealth of resources on **financial aid, grants, scholarships and aid, taxation, college plans, strategies**, etc. available online. If you have questions about your situation or would like to schedule a time to discuss your options, **please contact us** for more information.