College Knowledge

Understanding your financial options

Prepared for the Puyallup School District  Sept 29, 2017
Brook Anderson

Wealth Management and Financial Planning

- Retirement and life event planning
- Portfolio design and management
- Risk mitigation, estate planning, employee benefits, college planning, etc.
- Life-long financial coaching

Contact:

- 425-321-5801
- brook@kaizenfa.com
All content in this presentation is subject to the copyright protection of Kaizen Financial Advisors, LLC and its agents and employees (“the presenter”) and may not be reproduced in part or in whole without the prior written consent of the presenter.

Furthermore, information in this presentation is for general educational and informational purposes only. Although the information was compiled from sources believed to be reliable, the presenter does not assume any responsibility for its accuracy or completeness. This presentation is not meant to replace independent professional judgment and should not be relied upon as legal, financial, tax or any other type of professional advice of any kind or nature whatsoever. Audience members should refrain from taking action based on the content in this presentation without first consulting with their own attorney, tax adviser, or financial adviser.
College Planning Topics

Part 1: The Cost of College
Part 2: Lowering the Cost
  - Basic Strategies
  - Programs
  - Scholarships
Part 3: Sources of Funds
  - Financial Aid
  - Savings
  - Debt
Part 4: Finding a College Fit
Wrap-up with Q&A

Photo Credit: http://clipartix.com/college-clipart/
Part 1: The cost of college...
Average Cost of College

Average Estimated Full-Time Undergraduate Expenses

- **Public Two-Year In-District Commuter**
  - Tuition and Fees: $3,520
  - Room and Board: $8,050
  - Books and Supplies: $2,270
  - Transportation: $1,320
  - Other Expenses: $17,000
  - Total: $24,610

- **Public Four-Year In-State On-Campus**
  - Tuition and Fees: $9,650
  - Room and Board: $10,440
  - Books and Supplies: $2,110
  - Transportation: $1,250
  - Other Expenses: $24,610
  - Total: $39,890

- **Public Four-Year Out-of-State On-Campus**
  - Tuition and Fees: $24,330
  - Room and Board: $10,440
  - Books and Supplies: $2,110
  - Transportation: $1,250
  - Other Expenses: $39,890
  - Total: $49,320

- **Private Nonprofit Four-Year On-Campus**
  - Tuition and Fees: $33,480
  - Room and Board: $11,890
  - Books and Supplies: $1,070
  - Transportation: $1,230
  - Other Expenses: $49,320
  - Total: $49,320

**Undergraduate Budget**

**SOURCE:** The College Board, *Trends in College Pricing 2016*, Figure 1
If you attended a public college in the mid 80’s…today’s college education (inflation adjusted) is now more then 3 times as expensive!
Many studies... Many conclusions.

- Growth in financial aid availability (50% to 75% of expansions ends up in tuition)...student loan growth
- Tuition discounting...financial/merit aid (non-participants pay)
- Regulatory compliance costs (Vanderbilt $117M / $29M / $2,300)
- Reduced government subsidies
- Growth in non-instructional overhead (25 yrs: admin-staff/stud x2)

Photo Credit: http://thel Libertarianrepublic.com/the-perils-of-student-loan-debt/
The cost of UW and WSU

16/17 Published Costs:

<table>
<thead>
<tr>
<th></th>
<th>UW</th>
<th>WSU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tuition and Fees</td>
<td>$10,753</td>
<td>$9,884</td>
</tr>
<tr>
<td>Room and Board</td>
<td>$11,691</td>
<td>$11,356</td>
</tr>
<tr>
<td>Books and Supplies</td>
<td>$825</td>
<td>$960</td>
</tr>
<tr>
<td>Other</td>
<td>$2,679</td>
<td>$3,542</td>
</tr>
<tr>
<td><strong>Cost of Attendance</strong></td>
<td><strong>$25,948</strong></td>
<td><strong>$25,742</strong></td>
</tr>
</tbody>
</table>

Source: Collegedata.com
WA’s College Affordability Act

- Signed July 6, 2015
- UW & WSU: -5%, -10%
- Beginning in 2017-18 yr, tuition not to exceed BLS WA median wage growth
- Legislators being pressured to increase tuition beyond current law’s restrictions

Photo Credit: Seattle Times
Part 2: Lowering Costs
Some Ideas to Reduce Costs

- Running Start / AP credits
- Consider community college
- Live at home / off campus
- Seek private scholarships
- Stay on track, graduate on time/early
- “Bunching” to max financial aid
- American Opportunity Tax credit
- Summer courses can be less expensive
- Take maximum # of credits tuition covers
- Shop for reasonable net COA

Photo Credit: Linkedin.com
**Two paths...same degree**

**Jack:** Receives Accounting Degree from UW

<table>
<thead>
<tr>
<th>Year</th>
<th>UW, full COA</th>
<th>Earned credits</th>
<th>2 Qrt of So Yr @ Cascadia CC, living at home</th>
<th>Living at home</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fr Yr</td>
<td>25,948</td>
<td>300</td>
<td>2,500</td>
<td>14,254</td>
</tr>
<tr>
<td>So Yr</td>
<td>25,948</td>
<td>600</td>
<td></td>
<td>14,254</td>
</tr>
<tr>
<td>Jr Yr</td>
<td>25,948</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sr Yr</td>
<td>25,948</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>103,792</strong></td>
<td><strong>31,908</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Jill:** Receives Accounting Degree from UW

<table>
<thead>
<tr>
<th>Year</th>
<th>UW, full COA</th>
<th>Running Start Credits</th>
<th>Living at home</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fr Yr</td>
<td>25,948</td>
<td>Earned 1 Yr of Running Start Credits</td>
<td>14,254</td>
</tr>
<tr>
<td>So Yr</td>
<td>25,948</td>
<td></td>
<td>14,254</td>
</tr>
<tr>
<td>Jr Yr</td>
<td>25,948</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sr Yr</td>
<td>25,948</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>31,908</strong></td>
<td><strong>31,908</strong></td>
<td></td>
</tr>
</tbody>
</table>

**Cost:**

- **Fr Yr:** UW, full COA
- **So Yr:** UW, full COA
- **Jr Yr:** UW, full COA
- **Sr Yr:** UW, full COA

**Funds:**

- **Savings:** $16,000
- **Student's summer job contributions:** $8,000
- **Parent contributions from income:** $8,000
- **Student debt:** $72,000

**Annual debt payments @ 7% for the next 10 years:** $10,032

In the end they both have the same degree, but Jack paid nearly 3x as much and graduates with a $10k payment for next 10yrs
There are a number of programs (many of which are government sponsored) to pay/lower the cost education

- For example…the GI Bill, Federal and State Grants, College Bound Scholarships, Etc.

My expertise and presentation are focused on the more traditional financial dimensions of college

I strongly encourage you to contact your high school counselors to explore
So, your ideal school is expensive…

- Identify and target generous schools
  - Merit (if applicable)
  - Financial Aid (if applicable)

- Some schools are generous…others are not (large range)
Some key aspects of merit scholarships

Automatic vs. Application Based

- Automatic – No application required…based on grades and test scores
- Application – Must apply, may require essays, interviews, etc. …extra-circulars often play a role, usually the largest awards with few recipients
  - Resume window dressing can help
  - Difficult to assess probability of being a recipient – research past recipients

Grades less of a differentiator…favors test scores
Typical Merit Distribution

Merit awards are not linear... They disproportionally favor top performers!

Note: I assume percentile rank is based on test scores only. Reality is that some awards will include other factors such as leadership, extracurriculars, etc.

Disclaimer Note: These figures do not represent any specific institution it only depicts what the presenter has ascertained as “typical”, every school’s actual distribution will differ from the above.
Normal Distribution of SAT Scores at UW

Mean, 1245

25% Percentile, 1120

75% Percentile, 1370

Std Dev = 185

SOURCE: www.collegedata.com
Test Score Ranking

Normal Distribution of SAT Scores at UW

Percentile ranking within freshmen class based on test score
Let’s assume…

1. UW in-state costs
2. 50% of students receive non-need based merit $
3. Average merit scholarship of $10.3k per yr
UW Stats:

4.9% of students receive non-need based merit

Avg recipient gets $6.4k per yr

SOURCE: www.collegedata.com, distribution of awards based on presenters typical distribution model and is not school specific
WSU Stats:

16.6% of students receive non-need based merit

Avg recipient gets $3.8k per yr

SOURCE: www.collegedata.com, distribution of awards based on presenters typical distribution model and is not school specific
SPU Stats:

20.4% of students receive non-need based merit

Avg recipient gets $20.2k per yr

SOURCE: www.collegedata.com, distribution of awards based on presenters typical distribution model and is not school specific
Gonzaga Stats:

36% of students receive non-need based merit

Avg recipient gets $12.7k per yr

SOURCE: www.collegedata.com, distribution of awards based on presenter's typical distribution model and is not school specific
Trinity Stats:

52% of students receive non-need based merit

Avg recipient gets $19.0k per yr

SOURCE: www.collegedata.com, distribution of awards based on presenters typical distribution model and is not school specific
Estimating Merit Awards

Info you need (available at www.collegedata.com)…

1. % of students receiving non-need based merit
2. Average dollar award per recipient
3. SAT/ACT scores for 25\textsuperscript{th} and 75\textsuperscript{th} percentiles
4. Estimate of percentile rank (use NORM.DIST formula)
   - Mean = (75\textsuperscript{th} + 25\textsuperscript{th})/2
   - Std Dev = (75\textsuperscript{th} minus Mean)/0.675
5. My “Merit Multiplier Grid” to obtain multiplier

Net price calculators also provides automatic merit estimation
Say your score ranks in the 90th Percentile, and your school gives an average $15k of merit to the top 30% of Students.
Step 1: plot along x-axis

\[1 - ((1-0.90) \times 0.30) = 0.67\]
Step 2: read along y-axis to get Merit Multiplier

Approx. = 1.17
Step 3: Multiply Merit Multiplier by Avg Award

1.17 \times \$15k = \$17.6k

Est. Merit = \$17.6k/yr
Strive to Improve Test Scores

<table>
<thead>
<tr>
<th>Date</th>
<th>Type</th>
<th>Math</th>
<th>Reading</th>
<th>Comb</th>
<th>Improve</th>
</tr>
</thead>
<tbody>
<tr>
<td>6/28/2014</td>
<td>Practice</td>
<td>710</td>
<td>610</td>
<td>1320</td>
<td></td>
</tr>
<tr>
<td>8/9/2014</td>
<td>Practice</td>
<td>690</td>
<td>690</td>
<td>1380</td>
<td>60</td>
</tr>
<tr>
<td>8/23/2014</td>
<td>Practice</td>
<td>780</td>
<td>670</td>
<td>1450</td>
<td>130</td>
</tr>
<tr>
<td>9/20/2014</td>
<td>Practice</td>
<td>800</td>
<td>610</td>
<td>1410</td>
<td>90</td>
</tr>
<tr>
<td>10/11/2014</td>
<td>Real</td>
<td>800</td>
<td>720</td>
<td>1520</td>
<td>200</td>
</tr>
</tbody>
</table>

-The results above are real…student worked with private tutor

- Student targeted a competitive but generous school
  - 1320 ranked in the 51st percentile – no merit (per my estimate)
  - 1520 ranked in the 93rd percentile – $34k/yr merit (actual award received)

- SAT/ACT not a measure of IQ …this is a “teachable test”
Those who see material improvements…

- High personal motivation to do well
- Puts in the adequate “quality” time
- Focused on prep, few outside distractions
- Focuses on missed practice questions

Those who see minimal improvements…

- Parents are the driver and motivator
- Student feels overly pressured
- Inadequate lead/prep time…quality time

Photo Credit: http://www.elestoque.org
Part 3: Paying for College
### Monthly Saving for UW

<table>
<thead>
<tr>
<th>Grad Yr</th>
<th>School Yr</th>
<th>4yr Cost</th>
<th>Mo Save</th>
<th>Mo Save</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>Sr</td>
<td>104,236</td>
<td>8,470</td>
<td>7,184</td>
</tr>
<tr>
<td>2018</td>
<td>Jr</td>
<td>105,965</td>
<td>4,187</td>
<td>3,527</td>
</tr>
<tr>
<td>2019</td>
<td>So</td>
<td>109,144</td>
<td>2,795</td>
<td>2,344</td>
</tr>
<tr>
<td>2020</td>
<td>Fr</td>
<td>112,418</td>
<td>2,099</td>
<td>1,752</td>
</tr>
<tr>
<td>2021</td>
<td>8th</td>
<td>115,791</td>
<td>1,681</td>
<td>1,396</td>
</tr>
<tr>
<td>2022</td>
<td>7th</td>
<td>119,265</td>
<td>1,402</td>
<td>1,159</td>
</tr>
<tr>
<td>2023</td>
<td>6th</td>
<td>122,843</td>
<td>1,202</td>
<td>989</td>
</tr>
<tr>
<td>2024</td>
<td>5th</td>
<td>126,528</td>
<td>1,052</td>
<td>861</td>
</tr>
<tr>
<td>2025</td>
<td>4th</td>
<td>130,324</td>
<td>935</td>
<td>761</td>
</tr>
<tr>
<td>2026</td>
<td>3rd</td>
<td>134,234</td>
<td>842</td>
<td>681</td>
</tr>
<tr>
<td>2027</td>
<td>2nd</td>
<td>138,261</td>
<td>765</td>
<td>615</td>
</tr>
<tr>
<td>2028</td>
<td>1st</td>
<td>142,408</td>
<td>700</td>
<td>560</td>
</tr>
<tr>
<td>2029</td>
<td>Kind</td>
<td>146,681</td>
<td>646</td>
<td>513</td>
</tr>
<tr>
<td>2030</td>
<td>4yrs</td>
<td>151,081</td>
<td>599</td>
<td>473</td>
</tr>
<tr>
<td>2031</td>
<td>3yrs</td>
<td>155,613</td>
<td>558</td>
<td>438</td>
</tr>
<tr>
<td>2032</td>
<td>2yrs</td>
<td>160,282</td>
<td>522</td>
<td>407</td>
</tr>
<tr>
<td>2033</td>
<td>1yrs</td>
<td>165,090</td>
<td>491</td>
<td>380</td>
</tr>
<tr>
<td>2034</td>
<td>0yrs</td>
<td>170,043</td>
<td>462</td>
<td>356</td>
</tr>
</tbody>
</table>

**Education Cost Inflation = 3.0%**  
**Current Bal = 0**  
**Invest Growth Rate = 5.5%**

*Key take away…Start early*
Financial Aid Forms

- FAFSA and CSS Profile (depends on the school)
- Every school asks for the FAFSA
  - It’s Free and less burdensome than CSS
- Almost 400 schools also ask for CSS profile (mostly private)
- CSS administered by the College Board and imposes a nominal fee per school
- Two methodologies result in different calculated level of need

Source: Washington GET web page
Expected Family Contribution (EFC) is how much you can contribute and is primarily based on your income and assets.

High-Level EFC calculation based on 2 components...

- EFC = (1) Income Contribution + (2) Asset Contribution
  
  - (1) Income Contrib. = up to 47% of After-tax AGI less an allowance, plus 50% of student income in excess of $6.3k
  
  - (2) Asset Contrib. = up to 5.64% non-retirement assets less an allowance, plus 20% of student assets

NOTE: If income <= $24k, EFC is zero (eligible for max financial aid)
So...How much aid will I get?

Financial Need = Cost of Attendance – EFC

- Cost of attendance (COA) provided by school (UW is $26k)
- If COA <= EFC, than no financial aid
- COA adjustments to consider…
  - Living off campus reduces COA
  - Scholarships reduce COA

Calculator: [https://fafsa.ed.gov](https://fafsa.ed.gov) → “FAFSA4caster” (lower right)
### Contribution for Income

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted Gross Income (AGI)</td>
<td>120,000</td>
</tr>
<tr>
<td>Less State and Fed Taxes</td>
<td>-21,300</td>
</tr>
<tr>
<td>Less SS and State Taxes</td>
<td>-9,840</td>
</tr>
<tr>
<td>Less Income Allowance</td>
<td>Table A3</td>
</tr>
<tr>
<td>Available Income</td>
<td>X 61,860</td>
</tr>
</tbody>
</table>

### Contribution from Assets

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and savings accts</td>
<td>10,000</td>
</tr>
<tr>
<td>Non-Retirement Investments</td>
<td>60,000</td>
</tr>
<tr>
<td>Educational savings</td>
<td>30,000</td>
</tr>
<tr>
<td>Net worth of business</td>
<td>0</td>
</tr>
<tr>
<td>1Less Asset Allowance</td>
<td>Table A5</td>
</tr>
<tr>
<td>Discretionary Net Worth</td>
<td>71,200</td>
</tr>
<tr>
<td>x Asset multiplier</td>
<td>12%</td>
</tr>
<tr>
<td>Contributions from assets</td>
<td>Y 8,544</td>
</tr>
</tbody>
</table>

### Table A3: Income Protection Allowance

<table>
<thead>
<tr>
<th># of College students in household</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>17.6k</td>
<td>14.6k</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>21.9k</td>
<td>18.9k</td>
<td>15.9k</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>27.0k</td>
<td>24.0k</td>
<td>21.0k</td>
<td>18.0k</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>31.9k</td>
<td>28.9k</td>
<td>25.9k</td>
<td>22.9k</td>
<td>19.9k</td>
</tr>
<tr>
<td>6</td>
<td>37.3k</td>
<td>34.3k</td>
<td>31.3k</td>
<td>28.3k</td>
<td>25.3k</td>
</tr>
</tbody>
</table>

### Table A6: Parents Contribution from AAI

<table>
<thead>
<tr>
<th>If parents’ AAI is—</th>
<th>The parents’ contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than -$3,409</td>
<td>($750)</td>
</tr>
<tr>
<td>-$3,409 t o $15,700</td>
<td>22% of AAI</td>
</tr>
<tr>
<td>$15,701 to $19,700</td>
<td>$3,454 + 25% of AAI over $15,700</td>
</tr>
<tr>
<td>$19,701 to $23,700</td>
<td>$4,454 + 29% of AAI over $19,700</td>
</tr>
<tr>
<td>$23,701 to $27,700</td>
<td>$5,614 + 34% of AAI over $23,700</td>
</tr>
<tr>
<td>$27,701 to $31,700</td>
<td>$6,974 + 40% of AAI over $27,700</td>
</tr>
<tr>
<td>$31,701 or more</td>
<td>$8,574 + 47% of AAI over $31,700</td>
</tr>
</tbody>
</table>

### EFC from Table A6

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>EFC</td>
<td>26,765</td>
</tr>
</tbody>
</table>
Financial aid generally comes three forms (US Averages)…

1. **Grants** - cash gift to the student (US Avg. - 57% of all aid, 72% of fin aid)

2. **Loans** - must be paid back, federally estimated interest rates and certain beneficial features (US Avg. - 34% of all aid, 28% fin aid)

3. **Work study** - on campus employment
Less than 3% of schools cover 100% of all student’s need

- Real Examples…
  - UW: 42% had full need met, Average was 82% of need, 38% receive fin aid
  - Seattle University: 12% had full need met, Average was 69% of need, 67%

- Remember, financial aid comes in 3 forms

- Example: Assume 75% of need is met, than on average…
  - Grants (a gift to you): 75% x 57% or **43% of cost covered**
  - Student Loans (pay back with interest): 75% x 34% or **25% of cost**
  - Other + Work Study: 75% x 9% or **7% of cost**
  - Out-of-Pocket (you’re on your own): 25% of cost (additional debt?)

Even with typical financial aid…50% of cost may come from loans!
Received any flyers for free college planning presentations?…There’s a good chance it’s from an insurance agent…but why?

- Most assets reduce financial aid by 5.64% of the asset’s value

- Some examples of assets that don’t reduce financial aid
  - Primary home, farm, or small business
  - Retirement accounts (401k, IRA, Roth IRA, tax-deferred annuities, etc.)
  - Cash value of life insurance policies

- “Annuities” and “cash value life insurance” are insurance contracts
  - Manufactured by life insurance companies
  - Sold mostly by non-fiduciary insurance agents
Say you want to shelter $100k via insurance (improves EFC by $5,640). From previous example, 43% grant aid or $2,425 (57% grant, 75% need).

- **Commissions:** annuities - 4% to 8%, whole life - 6% to 12%
- **Annuity fees:** M&E charges =1.25% per yr on average, administrative and investment fees: > 1% per year
- **Whole life policies** includes the actuarial cost of life insurance

**Beware...** Fees will likely consume all benefit, and then some
College Savings Vehicles

- **State sponsored 529 plan savings accounts**
- **Pre-paid 529 tuition plans** (e.g. WA GET)
- **Coverdell savings accounts**
- **Qualifying US savings bonds**
- **Roth and Traditional IRAs**
- **UGMA accounts**
- **Taxable investment accounts**
  (e.g. a brokerage acct)

Photo Credit: yoursmaimoneymoves.com
## Comparison of Saving Plans

<table>
<thead>
<tr>
<th>WA GET</th>
<th>529 Plan</th>
<th>Coverdell Savings Accounts</th>
<th>Qualifying U.S. Savings Bonds</th>
<th>Roth IRA</th>
<th>Traditional IRA</th>
<th>UGMA/UTMA</th>
<th>Investment Account</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Federal Income Tax</strong></td>
<td>Non-deductible contributions; withdrawal earnings excluded from income to extent of qualified higher education expenses</td>
<td>Non-deductible contributions; withdrawal earnings excluded from income to extent of qualified higher education expenses</td>
<td>Non-deductible contributions; withdrawal earnings excluded from income to extent of qualified higher education expenses</td>
<td>Tax-deferred for federal; tax-free for state; current and 529A and bonds may be redeemed federal tax-free for qualified higher education expenses</td>
<td>Non-deductible contributions; withdrawal earnings excluded from income after age 59 1/2; five years, 10% penalty on early withdrawals unless used for qualified higher education expenses</td>
<td>Deductible or non-deductible contributions; withdrawal earnings excluded of basis subject to 10% penalty on early withdrawal unless used for qualified higher education expenses</td>
<td>Earnings and gains taxed to minor; first $100 of supported income is tax exempt; assessed income over $2,100 for certain children through age 18 is taxed at parents rate</td>
</tr>
<tr>
<td><strong>Federal Gift Tax Treatment</strong></td>
<td>Contributions treated as completed gifts; apply $14,000 annual exclusion, or up to $70,000 with 5-year election</td>
<td>Contributions treated as completed gifts; apply $14,000 annual exclusion, or up to $70,000 with 5-year election</td>
<td>Contributions treated as completed gifts; apply $14,000 annual exclusion</td>
<td>No gift if qualifying bonds must be owned by the parent</td>
<td>No gift involved</td>
<td>No gift involved</td>
<td>Transfers treated as completed gift; apply $14,000 annual gift exclusion</td>
</tr>
<tr>
<td><strong>Federal Estate Tax Treatment</strong></td>
<td>Value removed from donor's gross estate; partial inclusion for death during a 5-year election period</td>
<td>Value removed from donor's gross estate; partial inclusion for death during a 5-year election period</td>
<td>Value removed from donor's gross estate</td>
<td>Value included in bond owner's gross estate</td>
<td>Value included in the owner's gross estate</td>
<td>Value included in the owner's gross estate</td>
<td>Value removed from donor's gross estate unless donor remains as custodian</td>
</tr>
<tr>
<td><strong>Maximum Investment</strong></td>
<td>Limited to $500 units. A unit is priced based on the tuition and mandatory fees of UW/WSU</td>
<td>Established by the program; many in excess of $300,000 per beneficiary</td>
<td>$2,000 per beneficiary per year combined from sources</td>
<td>$10,000 face value per year, per owner, per type of bond</td>
<td>$5,500($4,500 for taxpayers age 50 and over)</td>
<td>$5,500($5,500 for taxpayers age 50 and over)</td>
<td>No limit</td>
</tr>
<tr>
<td><strong>Qualified Expenses</strong></td>
<td>Tuition, fees, books, supplies, equipment, special needs, room and board for minimum half-time students</td>
<td>Tuition, fees, books, supplies, equipment, special needs, room and board for minimum half-time students</td>
<td>Tuition, fees, books, supplies, equipment, special needs, room and board for minimum half-time students; additional categories of K-12 expenses</td>
<td>Tuition and fees</td>
<td>Same as 529 plan</td>
<td>Same as 529 plan</td>
<td>No restrictions</td>
</tr>
<tr>
<td><strong>Able to Change Beneficiary</strong></td>
<td>Yes, to another member of the beneficiary's family</td>
<td>Yes, to another member of the beneficiary's family</td>
<td>Contributions before beneficiary reaches age 38, use of account by age 50</td>
<td>Not applicable</td>
<td>Not applicable</td>
<td>Not applicable</td>
<td>No, represents an irrevocable gift to the child</td>
</tr>
<tr>
<td><strong>Time/Age Restrictions</strong></td>
<td>10 yrs from date of eligibility if not transfer to another beneficiary</td>
<td>None unless imposed by the program</td>
<td>Contributions before beneficiary reaches age 38, use of account by age 50</td>
<td>Bond purchaser must be at least 24 years old at time of bond issuance</td>
<td>Withdrawal earnings tax-free only after five years and age 50 (2/3)</td>
<td>Withdraw without penalty only after age 59 1/2</td>
<td>Custodianship terminates when minor reaches age-established under state law (generally 18 or 21)</td>
</tr>
<tr>
<td><strong>Income Restrictions</strong></td>
<td>None</td>
<td>None</td>
<td>Ability to contribute phases out for incomes between $39,000 and $60,000 (joint filers) or $50,000 and $110,000 (single)</td>
<td>Interest exclusion phases out for incomes between $115,770 and $146,700 (joint filers) or $77,200 and $92,200 (single)</td>
<td>Must have taxable compensation; contribution limit phases out for incomes between $185,000 and $195,000 (joint filers) or $114,000 and $133,000 (single)</td>
<td>Must have taxable compensation; amount deductible reduced or eliminated for taxpayers who participate in an employer retirement plan and have income above certain limits</td>
<td>None</td>
</tr>
<tr>
<td><strong>Federal Financial Aid</strong></td>
<td>Counted as asset of parent if owner is parent or dependent student</td>
<td>Counted as asset of parent if owner is parent or dependent student</td>
<td>Counted as asset of parent if owner is parent or dependent student</td>
<td>Not counted as asset; withdrawals of principal and interest counted as financial aid income</td>
<td>Not counted as asset; withdrawals of principal and interest counted as financial aid income</td>
<td>Counted as student's asset</td>
<td>Counted as asset of the owner</td>
</tr>
<tr>
<td><strong>Investments</strong></td>
<td>Fixed benefit plan. Designed to return the cost of tuition/inflation less fees.</td>
<td>Menu of investment strategies as developed by the program</td>
<td>Broad range of securities and certain other investments</td>
<td>Interest-bearing bond backed by full faith and credit of U.S. government</td>
<td>Broad range of securities and certain other investments</td>
<td>Broad range of securities and certain other investments</td>
<td>As permitted under state laws</td>
</tr>
<tr>
<td><strong>Use for Nonqualifying Expenses</strong></td>
<td>Withdrawn earnings subject to federal tax and 10% penalty</td>
<td>Withdrawn earnings subject to federal tax and 10% penalty</td>
<td>Withdrawn earnings subject to federal tax and 10% penalty</td>
<td>No penalty; interest on redeemed bonds included in federal income</td>
<td>Taxable portion of withdrawal prior to age 59 1/2 also subject to 10% early withdrawal penalty</td>
<td>Taxable portion of withdrawal prior to age 59 1/2 also subject to 10% early withdrawal penalty</td>
<td>Funds must be used for benefit of the minor</td>
</tr>
</tbody>
</table>
# Differentiating Saving Plans

<table>
<thead>
<tr>
<th></th>
<th>WA GET</th>
<th>529 Plan</th>
<th>Coverdell Savings Accts</th>
<th>Qualifying US Savings Bonds</th>
<th>Roth IRA</th>
<th>Trad IRA</th>
<th>UGMA/UTMA Acct</th>
<th>Invest Acct</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Federal Income Tax</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Fed Gift Tax Treatment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Fed Estate Tax Treatment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Maximum Investment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Qualified Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Beneficiary Changes</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Time/Age Restrictions</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Income Restrictions</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Federal Financial Aid</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Investments Options</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Nonqualifying Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
WA GET Plan (WA’s 529)
GET = “Guaranteed Education Tuition”

Locking in future tuition costs

100 GET units = one year undergraduate tuition and fees at the most expensive WA public university.

Purchasе up to 500 units per child. (revising to 600 by e.o.y)

Purchasе all at once, or over time

Source: Washington GET web page
Temporary closed to new sales, can continue current payment plans. Estimated re-opening on Nov 1, 2017

Unit purchase price fixed at $151 (adj), Payout at $117, recent premium...28% over current UW tuition cost

One time 13.44% rebasing bonus (incr. in # of units owned)

Allowing withdrawal w/o penalty if done by 60 days after new saving plan opens.

Will receive greater of equivalent lump-sum investment valuations or contributions if redeemed by deadline.

Source: Washington GET web page
Maximizing your GET Value

Major GET Concerns…

- Will Washington Affordability Act remain as written
- Because purchase price(s) are higher than tuition prices, it’s possible to **lose money** by remaining in the GET
- If you are on a monthly plan, you are also paying a **7.5% financing charge** on your unpaid balance
Know your Situation

Make decisions with full knowledge…

✧ Determine if you are likely to lose money on your GET
✧ If so, move funds to a new 529 plan
✧ If not, evaluate convenience of staying put vs increased return/risks of moving

---

**Kaizen GET Assessment Tool**

**WA GET Conversion Calculator**

<table>
<thead>
<tr>
<th>Original Plan GET Payment Plan</th>
<th>Termination / Convert to UTSP 529 Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initiation date</td>
<td>Plan Termination Month</td>
</tr>
<tr>
<td>Child’s Birthdate</td>
<td>9/30/2016</td>
</tr>
<tr>
<td>Duration of Contract in months</td>
<td></td>
</tr>
<tr>
<td>Contracted number of units</td>
<td></td>
</tr>
<tr>
<td>Locked in unit price</td>
<td></td>
</tr>
<tr>
<td>WA Wage Inflation</td>
<td></td>
</tr>
<tr>
<td>Effective unit price</td>
<td></td>
</tr>
<tr>
<td>Monthly Payment</td>
<td></td>
</tr>
<tr>
<td>Total Contributions</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>School Funding by Yr</th>
<th>Yr</th>
<th>W/D</th>
<th>Amt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Freshmen</td>
<td>2022</td>
<td>8/11/2022</td>
<td>6,072.35</td>
</tr>
<tr>
<td>Sophomore</td>
<td>2023</td>
<td>8/11/2023</td>
<td>6,234.52</td>
</tr>
<tr>
<td>Junior</td>
<td>2024</td>
<td>8/11/2024</td>
<td>6,442.16</td>
</tr>
<tr>
<td>Senior</td>
<td>2025</td>
<td>8/11/2025</td>
<td>6,635.42</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>25,404.40</td>
</tr>
</tbody>
</table>

**Effective Investment Rate of Return:**
Projected 09/30/2016 to End-of-Plan: 1.0%
Plan-to-Date: 2.9%
Projected Plan through End-of-Plan: 1.7%
Projected Plan through End-of-Plan (if Lump Sum): 3.9%

**Effective Investment Rate of Return:**
Projected 09/30/2016 to End-of-Plan: 3.2%
529 Plans
What is a 529 plan?

- Education savings plan operated by a State or Ed Institution.
- Either prepaid or savings, some states have both.
- You can buy any state’s plan (except pre-paid tuition plans)
- Provides tax exempt growth
- States decide whether it will offer a 529 plan (or more than one), and state income tax treatment

Source: http://www.savingforcollege.com/intro_to_529s/
529 Plans Very Popular

State 529 Plan Assets
Billions of dollars, end-of-period, 2001-2014

Prepaid tuition plans
Savings plans

Note: Data were estimated for a few individual state observations in the early years in order to construct a continuous time series.
Sources: Investment Company Institute and College Savings Plans Network

Source: https://www.ici.org/research/stats/529s/529s_14_q4/
## Pros/Cons of a 529 plan

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>No Fed tax on income or gains</strong></td>
<td>Reduces financial aid…parent asset</td>
</tr>
<tr>
<td><strong>High contribution limits</strong></td>
<td>Gains subject to penalty if not used for qualified expenses</td>
</tr>
<tr>
<td><strong>Transferable</strong></td>
<td>Plan administration fees</td>
</tr>
<tr>
<td>Excluded from donor's gross estate; partial inclusion for death during a 5-year election period</td>
<td><strong>Plan selection important…the good, the bad, and the ugly</strong></td>
</tr>
<tr>
<td><strong>Diverse investment options</strong></td>
<td>Allowed only 2 trades per year</td>
</tr>
<tr>
<td><strong>No income limitations</strong></td>
<td></td>
</tr>
<tr>
<td><strong>No age or time limitations</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Parental control of assets</strong></td>
<td></td>
</tr>
</tbody>
</table>
529 Impact on Financial Aid

**Assets**
- 529 plans are “parent assets” and reduces Fin Aid
- Includes the sum of all your 529 plans

**Income**
- Withdrawals for qualified expenses not counted as income

Avoid Grandparent Trap…
- Accounts owned by a grandparent do not count as an asset, but withdrawals count as student income the following year (50% reduction after allowance).
- Solution…have grandparent pay only senior year, not every year
Pay Attention to Fees...

All 529 plans have select fees and expenses

- enrollment charges
- annual maintenance fees
- sales loads
- deferred sales charges paid when investors withdraw their money
- administration and management fees and underlying fund expenses.

Source: NASAA website, Photo credit: http://studentaccounts.wvu.edu/payments/60_40_payment_plan
Consider Age-based Investments

Age-Based Aggressive Global

<table>
<thead>
<tr>
<th>Beneficiary Age</th>
<th>0-3</th>
<th>4-6</th>
<th>7-9</th>
<th>10-12</th>
<th>13-15</th>
<th>16-18</th>
<th>19+ or college enrolled</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Equity</td>
<td>60%</td>
<td>80%</td>
<td>70%</td>
<td>60%</td>
<td>50%</td>
<td>40%</td>
<td>20%</td>
</tr>
<tr>
<td>International Equity</td>
<td>20%</td>
<td>20%</td>
<td>30%</td>
<td>40%</td>
<td>50%</td>
<td>60%</td>
<td>80%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>20%</td>
<td>20%</td>
<td>20%</td>
<td>20%</td>
<td>20%</td>
<td>20%</td>
<td>0%</td>
</tr>
<tr>
<td>FDIC-insured accounts</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Legend:
- Domestic Equity
- International Equity
- Fixed Income
- FDIC-insured accounts
# Top Rated 529 Plans

<table>
<thead>
<tr>
<th>Highest Rated 529 Plans</th>
<th>State</th>
<th>Availability</th>
<th>Min Init Purchase</th>
<th>MorningStar Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utah Educational Savings Plan</td>
<td>UT</td>
<td>Direct</td>
<td>$0</td>
<td>Gold</td>
</tr>
<tr>
<td>Virginia529 inVEST</td>
<td>VA</td>
<td>Direct</td>
<td>$25</td>
<td>Gold</td>
</tr>
<tr>
<td>The Vanguard 529 College Savings Plan</td>
<td>NV</td>
<td>Direct</td>
<td>$3,000</td>
<td>Gold</td>
</tr>
<tr>
<td>New York's 529 Program (Direct)</td>
<td>NY</td>
<td>Direct</td>
<td>$25</td>
<td>Silver</td>
</tr>
<tr>
<td>CollegeAdvantage 529 Savings Plan</td>
<td>OH</td>
<td>Direct</td>
<td>$25</td>
<td>Silver</td>
</tr>
<tr>
<td>ScholarShare College Savings Plan</td>
<td>CA</td>
<td>Direct</td>
<td>$25</td>
<td>Silver</td>
</tr>
<tr>
<td>T. Rowe Price College Savings Plan</td>
<td>AK</td>
<td>Direct</td>
<td>$250</td>
<td>Silver</td>
</tr>
<tr>
<td>Michigan Education Savings Program</td>
<td>MI</td>
<td>Direct</td>
<td>$25</td>
<td>Silver</td>
</tr>
<tr>
<td>MOST Missouri's 529 Plan</td>
<td>MO</td>
<td>Direct</td>
<td></td>
<td>Silver</td>
</tr>
<tr>
<td>CollegeAmerica</td>
<td>VA</td>
<td>Advisor</td>
<td>$250</td>
<td>Silver</td>
</tr>
<tr>
<td>Maryland College Investment Plan</td>
<td>MD</td>
<td>Direct</td>
<td>$250</td>
<td>Silver</td>
</tr>
<tr>
<td>CollegeBound Saver (Direct)</td>
<td>RI</td>
<td>Direct</td>
<td>$0</td>
<td>Silver</td>
</tr>
<tr>
<td>Bright Directions Coll Savings Program</td>
<td>IL</td>
<td>Advisor</td>
<td>$0</td>
<td>Silver</td>
</tr>
</tbody>
</table>

Source: www.MorningStar.com
Some Facts…

- Total US Student Debt = $1.44 Trillion
- Americans with Student Debt = 42.2M (nearly 1 out of 5 adults in US)
- Average Debt per Student = $37,172 Class of 2016 (70% of graduates)
- % 90days+ Delinquent or in Default = 11.2% (up from approx. 6% in 2006)

Q1 2006 = $481B
Q1 2017 = $1.44T up 300%
Average growth rate of 10.5% per year
Growth in debt per student = 375%
Growth in CPI (inflation) = 66%
Debt/student growing faster than inflation by 5.7x

Source: Wall Street Journal
Recent Trends: Economy is expected to strengthen, Fed has been raising rates as a result, could result in high student loan rates.
Can taking on limited debt be financially justified...

- **Look how financial institutions set limits?** e.g. Mortgage guidelines...
  - Limit to 28% of pre-tax income, 36% when including all debts

- **Consider earning expectations based on expected major/career**
  - Computer Science, starting $70k ($30k debt at 7% rate = 6% of income)
  - Exercise Science, starting $34k ($30k debt at 7% rate = 12% of income)

*Interesting fact...Individuals with student debt are more likely to acquire other debts later in life.*
Candidates for reasonable debt...

- Ability to spend considerably less than they earn
- Willing/ability to live at home after graduation to save $
- Able to contribute to retirement despite student debt pmts

Candidates for less debt...

- Strong desire to buy a home, new cars, material travel, etc.
- One who’s income drives lifestyle (the upward ratchet)
- Determined to live in an expensive geography (one they can’t afford)
Viewing college as a financial investment...

❖ Studies have contemplated college expense vs. investing the money in the markets, and which is a better financially

❖ A number of financial articles have conducted analysis
  o Majority of cost/major combos still favor college…but shrinking
  o Unfortunately, a growing number of cost/major combos failed

Some additional considerations...

❖ Unemployment rate is higher for non-college graduates

❖ Career options increase and can thus increase job satisfaction
Improving College ROI

Things that **Increase** college ROI...

- Reducing cost (Remember Jack and Jill at the UW…)
- Obtaining a degree that yields higher earning potential

Things that **Decrease** college ROI...

- Debt interest expense
- Paying for school name recognition in a field that doesn't reward it
- Not graduating on time

Photo Credit: http://cdn.brillianceweb.com/Portals/3/Images/roi2.jpg
Yes college is expensive…but don’t let that stop you

- Be creative, find a cost structure that works for you
- Take advantage of every element that is in your control
- Seek worthy advice from reliable sources
- There is likely a financially viable path for everyone

Photo Credit: http://www.kejlegaljustice.com/images/college-attorney-durham-nc.jpg
Part 4: Finding a Fit
The challenge is finding the schools that align with your requirements, in proportion to their importance.
My recommended “school fit” priorities in order…

1. Financial alignment (COA after all forms of aid)
2. Academic alignment (priorities very by family)
   - Inclusion of desired majors
   - Probability of admittance into desired program
   - School’s emphasis on desired major(s)
   - Student/teacher ratio
   - Reputation…if that is important to you
3. Size, region, location, campus vibe
4. Location…you’re there for school

Use good data aggregators
What are they…

Great aggregator is www.collegedata.com

Multi-attribute searches

- Attributes include: aid generosity, entrance difficulty, etc.
- Results ranked by desired criteria
Search via “College 411” or search bar

Navigate common data set sections by tabs across a schools profile
Finishing Up

Photo Credit: http://gettingunstuckllc.com
College planning decisions should be aligned with your overall financial plan.

I act as a personal CFO to my clients...
- Financial Planning
- Asset Management
- College Planning
- Estate Plan Reviews
- Proactive Tax Planning, etc..

*Taking the right steps at the right times*
Key Takeaways

- Strategize…you can finance part of an education…not a retirement
- Start early and save aggressively…it requires sacrifice
- Optimize/minimize educational expenses where possible
- Take advantage of school generosity, max financial support
- Understand and optimize your financial aid situation
- For most, a 529 is the preferred savings vehicle…Assess you GET plan
- Avoid excessive debt

Photo Credit: www.clipartpanda.com
Brook Anderson  

Wealth Management and Financial Planning  
- Kaizen Financial Advisors, LLC.  
- Independent RIA Fiduciaries  
- Fee based...not commission based  
- Highest priority...your lifetime financial health  
- Providing clients life-long financial coaching  

Contact:  
- 425-321-5801  
- brook@kaizenfa.com