

Overview of Educational Planning

Presented to SFUSD 8th Grade Parents

May 14, 2011

Educational Planning

Developing an Effective Education Savings Strategy

Saving for education expenses, whether private elementary and secondary school expenses and/or college expenses, is for many individuals one of the most significant issues in their overall financial plan. Certainly there are a myriad of questions that individuals must consider in developing an effective savings strategy:



- Where will they go to school?
- How much will it cost?
- What's the best way to invest?

Addressing Three Key Questions

However daunting this task may seem, focusing on three key steps will simplify the process and enable you to develop an effective strategy that reflects your unique circumstances:

1. Identify the future cost of education
2. Identify an appropriate savings vehicle
3. Understand potential tax benefits

Step 1: Identify the Future Cost of Education

Clearly, the first issue that individuals must address is defining how much money must be accumulated to meet future educational expenses. For most individuals, this means understanding how much money will be needed when their children go to college.

The best place to begin is with an examination of current costs. The following table illustrates the average annual costs for higher education:

2010 - 2011 Average College Costs

College Type	Tuition and Fees	Room and Board	Books and Supplies	Personal Expenses	Total Costs
Four Year Public	\$7,605	\$8,535	\$1,137	\$3,062	\$20,339
Four Year Private	\$27,293	\$9,700	\$1,181	\$2,302	\$40,476

NOTE: Expense categories are based on Institutional budgets for students as reported by colleges and universities in the *Annual Survey of Colleges*. They do not necessarily reflect actual student expenditures.
* Data from collegeboard.com: http://trends.collegeboard.org/downloads/College_Pricing_2010.pdf

Step 1: Identify the Future Cost of Education

This table clearly illustrates that saving for future education expenses is not a matter to be taken lightly.

2010 - 2011 California College Comparison

Comparison Criteria	University of California, Berkeley	Stanford University	San Francisco State University
In-state tuition & fees	\$12,462	\$38,700	\$5,014
Room & board	\$15,308	\$11,876	\$12,414
Total	\$27,770	\$50,576	\$17,428

NOTE: Expense categories are based on Institutional budgets for students as reported by colleges and universities in the *Annual Survey of Colleges*. They do not necessarily reflect actual student expenditures.

* Data from collegeboard.com: http://collegesearch.collegeboard.com/search/compare_schools.jsp



3

Projecting Future Costs

Obviously, education expenses can be significant, requiring individuals to develop a clear and disciplined plan for funding this liability. To define the projected liability will require adjustments to the current costs.

What is the rate of inflation for college expenses?

Answer:

According to the CollegeBoard.com, inflation of college cost is typically in the 5 to 8 percent range.

* Extrapolating this trend forward, it will cost \$214,690 to \$258,403 to send a child today to a private college 5 years from now.

Comparison Criteria	University of California, Berkeley	Stanford University	San Francisco State University
5%	\$68,553	\$212,886	\$27,582
8%	\$82,510	\$256,231	\$33,197

*Data from http://apps.collegeboard.com/fincalc/college_cost.jsp (see explanation of college cost inflation rate in calculator)



4

Step 2: Identify an Appropriate Savings Vehicle

Previously, you learned that some of the ways to pay for college are:

- Grants
- Workstudy
- Loans
- Scholarships

The next step is to identify the type of savings vehicle that is appropriate for you.

The following pages provide a comprehensive overview of the primary options available:

- Private Investment Accounts
- Custodial Accounts (UTMAs/UGMAs)
- Coverdell Education Savings Accounts (ESAs)
- 529 Plans



5

Private Investment Accounts

The most obvious and most often chosen option for college savings is the traditional private investment account. Although traditional investment accounts do offer some advantages relative to other education investment vehicles, they are typically the most tax-inefficient option.

Advantages

- Unlimited Contributions
- Control of Assets
- Investment Flexibility

Disadvantages

- Lack of tax benefits

Custodial Accounts (UTMA /UGMA)

Accounts established under UTMA (Uniform Transfer to Minors Act), effective in 48 states, and UGMA (Uniform Gift to Minors Act), effective in South Carolina and Vermont, are custodial accounts used to allow minors to have assets titled in their names but managed by an adult. Upon establishing an UTMA/UGMA, the donor must appoint a custodian who will oversee the account until the minor reaches age 18 or 21 (depending upon the state for UGMAs, 21 for UTMA), at which time the individual gains full control over the assets.

From a tax perspective, income generated in UGMAs/UTMAs is taxed as income to the minor child. But minors under age 19 and dependent full-time students under age 24 with "unearned income" above certain levels (adjusted for inflation) are subject to the "Kiddie Tax," which may result in taxation at the parent's rate. The table provides an overview of the tax structure for minors who only have unearned income.

With this tax structure, UGMAs/UTMAs may be more attractive from a tax perspective than private investment

Advantages

- Parental Control Over the Assets
- Potential for Some Tax Advantage Growth

Disadvantages

- Loss of Control
- Limits on Contributions
- Inability to Change Beneficiary
- Inclusion in Donor's Estate
- Considered Child's Asset

Coverdell Education Savings Accounts (ESAs)

The Coverdell Education Savings Account (ESA) is a relatively new education savings vehicle that is in many ways similar to a Traditional IRA, allowing individuals to set aside up to \$2,000 per year tax-deferred in an account earmarked for education.

Advantages

- Tax-Deferred Investment Earnings
- Tax-Free Distributions for Qualified Education Expenses
- Self-Directed Investments

Disadvantages

- Limits on Participation
- Contribution Limits

529 Plans: A Very Attractive Alternative

Beginning around 1990, states started developing a new type of plan designed to encourage savings for college expenses. Subsequently, in 1996, legislation was passed giving rise to what has become known as 529 Plans, referring to Internal Revenue Code Section 529, which allows these plans.

Advantages	Disadvantages
<ul style="list-style-type: none"> ◆ Investment Earnings are Tax-Deferred ◆ Qualified Distributions are non-Taxable ◆ Potential State Income Tax Deduction ◆ Estate and Gift Tax Benefits ◆ Accelerated Gift Tax Treatment 	<ul style="list-style-type: none"> ◆ State tax benefits may be limited ◆ Potential limitations to the investment options ◆ Potential risk on investments ◆ Lack of education options ◆ Expenses and sales charges may be higher than what you would pay if you invested the money yourself

529 Plans and Coverdells

	529	CESA
Who may establish:	Anyone	Individuals below certain AGI limits as follows: Single filers: \$110,000 Joint filers: \$220,000
Maximum contribution:	No annual maximum, but annual contributions over \$13,000 may be subject to gift tax. State determines maximum lifetime limit	\$2,000 per beneficiary (under age 18 or a special needs beneficiary) for single filers with AGI under \$95,000 and joint filers under \$190,000. Phased out contribution between \$95,000 – \$110,000 (single filers) and \$190,000 – \$220,000 (joint filers)
Tax deduction on contributions	State tax deduction may be available depending on state plan	None
Eligible investments	Mutual funds available through state sponsored plan	Generally the same as IRAs ((e.g. stocks, bonds, mutual funds, etc.)
Eligible educational expenses	Only higher education (e.g. college)	Both higher education and primary/secondary education
Contribution due date	Generally either yearend or contributor's tax return due date, depending on state rules	Due date of contributor's tax return (generally April 15)
Non-qualified distributions	Earnings taxed as ordinary income and may be subject to a 10% penalty if not rolled to a new beneficiary*	Earnings taxed as ordinary income and may be subject to a 10% penalty if not distributed by age 30 or rolled to a new beneficiary*
Transfer/rollover ability	Both transfers and rollovers limited to one per beneficiary per 12 months	Unlimited transfers; rollovers limited to one per beneficiary per 12 months.

Step #3: Educate Clients on Potential Tax Credits and Deductions

The final step is to understand the potential tax credits that may be available. There are two tax credits and three deductions that individuals can potentially use to ease the burden of rising education expenses:

- The American Opportunity Tax Credit
- Lifetime Learning Credit
- Student Loan Interest Deduction
- Tuition and Fees Deduction
- Business Deduction for Work-Related Education

Conclusion

Given the rising costs of education, now more than ever it is vital that you are well equipped with the knowledge and ability to develop sound education planning strategies. Feel free to contact me anytime

Gilbert Tay Financial Advisor

One California Street, 20th Floor
San Francisco, CA 94111

949-861-1987 Mobile
415-954-6818 Direct
415-954-6700 Main
415-954-6762 Fax
800-826-7014 Toll Free

Gilbert.Tay@ubs.com
GilbertTay@gmail.com
Website URL: ubs.com/fa/gilberttay



Important Considerations

It is important that you understand the ways in which we conduct business and the applicable laws and regulations that govern us. As a firm providing wealth management services to clients in the U.S., we are registered with the U.S. Securities and Exchange Commission as an investment adviser and a broker-dealer, offering both investment advisory and brokerage services. Though there are similarities among these services, they are separate and distinct, differ in material ways and are governed by different laws and separate contracts. We make financial planning services available to you in our capacity as a registered investment adviser. Our financial planning services terminate when the plan is delivered to you and your receipt of this service does not alter or modify in any way the nature of your UBS accounts, your rights and our obligations relating to these accounts or the terms and conditions of any UBS account agreement in effect. You are not required to establish accounts, purchase products that we distribute or otherwise transact business with UBS Financial Services Inc. or any of our affiliates to implement any of the suggestions made in connection with the financial planning services we provide. Should you decide to implement an investment strategy with us, we will act as either a broker-dealer or an investment adviser, depending on the investment product or service that you select. For more information on the distinctions between our brokerage and investment advisory services, please speak with your Financial Advisor or visit our website at www.ubs.com/workingwithus.

Neither UBS Financial Services nor its employees (including its Financial Advisors) provide tax or legal advice. You should consult with your legal counsel and/or your accountant or tax professional regarding the legal or tax implications of a particular suggestion, strategy or investment, including any estate planning strategies, before you invest or implement.

© 2010 UBS Financial Services Inc. All rights reserved. Member SIPC.
UBS Financial Services is a subsidiary of UBS AG.


