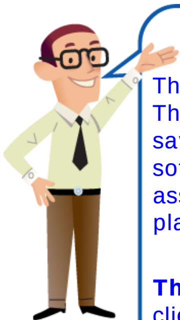
Solutions Plan
from collegiate funding solutions

CFS



SAMPLE REPORT – Condensed for illustration purposes

This sample report reflects a client that is **not a candidate for need-based financial aid**. The goal is to help the client send their child to the right college, for the right reason and to save significantly on out-of-pocket college costs. This is accomplished with the help of the software-generated report, CFS's college admissions and forms service and with the assistance of CFS's subject matter experts. A holistic and comprehensive approach to college planning will help the client achieve an overall best outcome.

The first 3 sections of the report can serve as an excellent **executive summary** for the client. The remaining sections, containing all the detailed strategies and analysis can be **advisor only** or as part of a deliverable at the discretion of the advisor.

Prepared for Vincent

Contents

Section I

Section I includes:

- The current one-year **Cost of Attendance** at the school selected
- Projected four-year costs at the inflation rate designated
- Projected annual college costs at the inflation rate designated
- Shortfall or excess of resources available for college funding
- An analysis is provided with suggestions for developing an efficient and effective strategic college savings and funding plan in light of the information revealed in this section.

How Much Will Davidson College Cost for Vincent?

According to the latest information available, if **Vincent** starts college in **3 year(s)**, **Davidson College** will have a four-year projected cost of **$274,073** using a **5% annual inflation rate**.

Four-Year Projected Annual Costs

Calendar Year	Projected annual COA
2016	$63,588
2017	$66,767
2018	$70,106
2019	$73,611

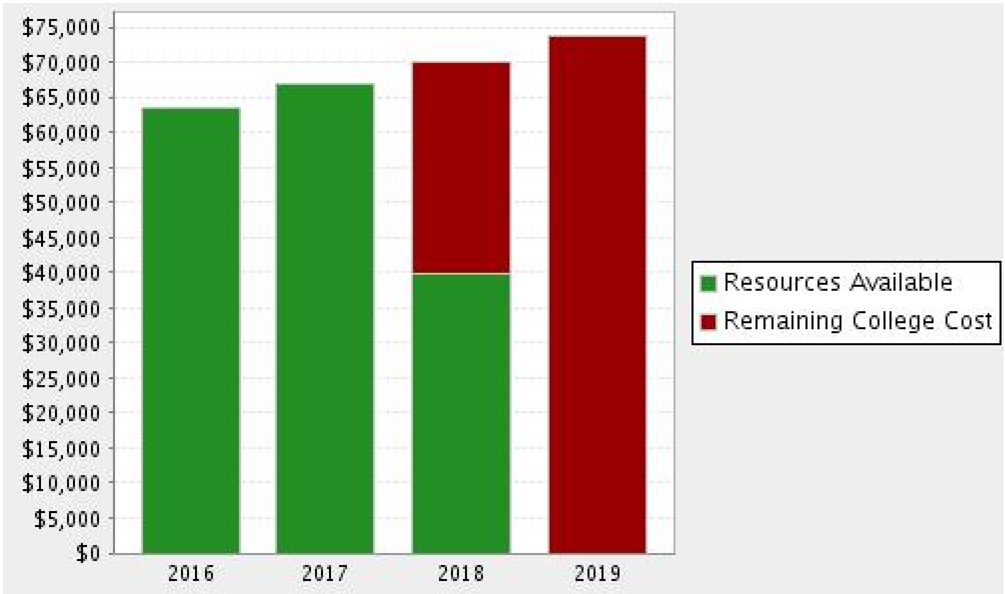
Davidson College uses the **Institutional Methodology** to determine your Expected Family Contribution (EFC). Your EFC is what your family is expected to contribute toward the annual cost of attendance, before qualifying for any need-based financial aid. Your current EFC is calculated to be **$102,603**.

INITIAL EFC Based Upon Submitted Data Form	
Initial Family EFC	$102,603

The following table contains your estimated **Financial Need** at **Davidson College**. The Financial Need amount is determined by subtracting the Expected Family Contribution (EFC) from the Cost of Attendance (COA) at the school. The one-year COA is determined by totaling the costs for tuition and fees, room and board, books and supplies, personal expenses and travel.

School Name	Estimated COA	Financial Need
Davidson College	$54,930	$0

Annual Projected College Costs and Resources Available



Estimated Shortfall - The College Funding Gap

Section II

Analysis -How Can You Save ON the Cost of College?

Here are three ways that we are going to help you save on your college costs:

1. Through the college financial planning strategies in this report.
2. By referring you to a hands-on college admissions and financial aid service.
3. By helping you choose the best options for covering the college-funding gap.

Analysis

Since your financial need is calculated to be 0 at **Davidson College**, you are not likely a candidate for any need-based financial aid.

Applying for Financial Aid - No Matter What

We strongly encourage you to apply for financial aid, regardless of your family's financial situation and whether or not you may be a candidate for need-based financial aid.

Applying for financial aid is part of an overall strategy for reducing your out-of-pocket college costs. Here's why:

CFS proprietary content is inserted here that explains why applying for financial aid is vitally important for affluent clients who are interested in reducing their college costs - even if they don't qualify for need-based financial aid

College Admissions - Finding the Right College for All the Right Reasons

TAIL WAGS THE DOG

CFS proprietary content is inserted here

FIND BALANCE

CFS proprietary content is inserted

AVOID COSTLY TRANSFERS

CFS proprietary content is inserted.

LEVERAGE A BETTER OFFER

CFS proprietary content is inserted.

UNLOCKING TUITION DISCOUNTS

CFS proprietary content is inserted.

CONCLUSION

Making the right decisions and doing things correctly during the college admissions and forms process will help to assure a best outcome - best college fit for your student with significant savings on your out-of-pocket college costs.

RECOMMENDED ACTION

Recommendation to client is included here

Section III

Section III - The reports include scholarships (free money) the student is eligible for at the school of choice and how to obtain them! The scholarship information is based on the student's academic profile. In addition to revealing the scholarships that the student may already qualify for, CFS will include additional scholarships that the student may qualify for by increasing test scores, GPA, etc. This additional information can help the family decide if investing in test preparation courses may be a prudent decision.

The scholarship information enhances your ability to help the client leverage merit-based (based on academic performance) scholarships (free money) from the school to minimize their out-of-pocket costs! With this content in the reports, you can further help your clients save ON the cost of college.

Merit Scholarships for Vincent at Davidson College

College Scholarships

Based on the student's academic profile: SAT/ACT scores, GPA, Class Rank, etc., following are merit money opportunities at **Davidson College** that **Vincent** may qualify for. These scholarship/grants do not have to be paid back, are based on the merit of the student and can help to significantly reduce the family's out-of-pocket college costs.

Davidson College - John M. Belk

Eligible Based On Supplied Information: **Yes**	
Amount: **$52,155**	
Min GPA: 3.5	Essay Required: No
Min SAT: 1200	Interview Required: No
Min ACT: 26	Audition Required: No
Min Class Rank: not available	Specified Majors:
Scholarship Deadline: 2013-03-15	For Minority: No
Renewable: Yes	Is Limited: No
Notes To Renew: Maintain good GPA	Number Available: Limited
State of Residence:	
Notes: Also includes a $3,000 study stipend (but only two qualifiers will receive it.)	
Scholarship Link: http://www3.davidson.edu/cms/x3894.xml	

Section IV

Section II Introduction

Section IV contains income and asset based college-planning strategies that can be implemented based on the client's particularly circumstances and lead-time till college. The strategies are selected from the **CFS knowledgebase** of over 100 college planning strategies and cover topics such as:

- Cash flow strategies
- Tax savings strategies
- Business owner strategies
- Gifting strategies
- Grandparent strategies
- Trust strategies
- 529-plan strategies
- Estate planning strategies
- Education tax Credit Strategies
- Charitable intent strategies

The cumulative effect of the strategies can yield significant benefits for the client. The strategies included are determined by the data and responses to questions on the online dataform. Where applicable, client-specific examples are included showing the benefit of implementing the strategy for the client. Tips and warnings are included as appropriate to facilitate informed and prudent college planning decisions. **The goal is** to help the client - through the software-generated report - and the advisor - achieve an outcome that includes saving ON, not just FOR the cost of a college education.

Income and Asset Planning Strategies

Following is not a complete list of strategies that would be included in the report for this client. Those included are for illustration purposes to help you see the type of actionable information and examples included in the income and asset planning section of the report

Introduction

Following are specific **income and asset** planning strategies that may provide additional cash flow for college expenses, reduce college costs and, at the same time, potentially help you improve your overall retirement picture.

Income Strategies:

This strategy is available because you have stocks or mutual funds allocated for college funding or you indicated an interest in potentially gifting assets to the student. For estate planning, wealth transfer and potentially immediate tax savings, consider gifting of appreciated assets/securities, including employee incentive stock options, to the student. Due to the current "kiddie tax" rules in effect, which apply to dependent college students under the age of 24, and tax unearned income above $1,900 at the parents' rate, consider the following strategies to avoid any kiddie tax ramifications:

1. In cases where the parents have either phased out of the personal exemption for the student or have lost much of the benefit, the student could become tax independent of the parents. Because an independent student is not subject to kiddie tax, the following example shows the benefit of gifting highly appreciated assets. For the student to be tax independent of the parents, they must provide over 50% of their own financial support. **Example:** Capital gains incurred on a $24,000 gift with a $4,000 cost basis would result in a $3,000 tax savings assuming the parent's capital gains rate of 15% and 0% for the student. If the parents' income is too high to claim the exemption, or if they have phased out of much of the benefit, this strategy will result in a net tax savings for the family.
2. For a student who is a tax dependent of the parents during the college years, therefore subject to kiddie tax, the student could wait until after the kiddie tax years to liquidate the assets and pay down education loans secured during the college years. **Example:** $15,000 in Stafford loans during undergraduate school will most likely produce a deductible interest expense after college since the graduate will not likely have income so high as to disqualify them for the student loan interest deduction. Likewise, the capital gain rate on the liquidation of the asset may be 0 for the student after college (particularly if they are married and file a joint tax return).

Transferring securities (stocks/mutual funds) into a UGMA or UTMA and then into a 529 college savings plan may provide benefits, they include:

1. If the child is a dependent of the parents when they enter college, when the asset is liquidated prior to funding the 529, the child may pay a lower capital gains tax then the parents provided that the gain is below $1,900 (for a dependent child under the age of 18, or a dependent college student under the age of 24 any investment income greater than $1,900 is taxed at the parents' rate. This is known as the kiddie tax).
2. If the student is tax independent of the parents then kiddie tax does not apply and the capital gains will likely be 0, provided the student is in the 15% or lower tax bracket.
3. The investment will grow tax deferred and the proceeds may be tax-free for college.

The parents would gift the appreciated asset to the child, who would then sell the asset and use the proceeds to fund a 529 plan. As long as the child's income is at or below the 15% level, and the gain on the sale is less than the kiddie tax limit of $1,900, the capital gains tax would be 0. In situations where the sale of the assets would create a gain greater than $1,900 the parents could stage the sale of the asset in increments so as not to trigger (or minimize) any kiddie tax consequences for the year.
Even payment of some kiddie tax may be offset completely by the benefit of the tax-free withdrawals from the 529 account.

Tip: **Example:** Suppose the parents liquidated $10,000 of stock that triggered a tax of $500 - due to kiddie taxes - and deposited the proceeds in a 529 plan. After four years, at an 8% rate of return, the 529 would have $3,604 in gain that would be tax free if used for qualified college costs. Tax on this gain if the stock were not liquidated and deposited in the 529 would have been $540!

Consider a **"college condo"** strategy as a way to meet the housing need of the student while enjoying the benefits of investment property. The rent from roommates will provide some if not all the mortgage expense, while the property will provide interest expense, depreciation, utilities, taxes, common expenses and appreciation for resale or charitable donation after your college student graduates. Likewise, the arrangement prepares the student for practical living experience as well as homeowner responsibilities. The tax savings and any profit incurred will help offset the total costs of college. Other options include 1031 Exchange, retirement home or a charitable donation. The savings on the cost of room and board can be significant. The average annual cost of room and board exceeds $6,000/year and at many private schools is significantly higher.

Tip: As room and board costs increase annually, so can annual rent, creating more profitability.

Tip: This strategy is even more attractive when the owner of the condo is in reasonably close proximity to the property so they can actively manage it.

Warning: There may be a risk that the student drops out of school forcing the parent to sell early or find someone else to manage the condo. This is an important consideration before implementing this strategy.

Tip: **Example - of college condo strategy using the following assumptions**

Average cost of 3 bedroom condo*	$225,000
Interest rate mortgage 5/1 ARM	6%
Mortgage cost: annual	$13,500
Utilities, Taxes, Condo fees: annual**	$6,000
Liability Insurance: annual**	$250
Rent: 2 renters $500: month each	$12,000
Annual appreciation on property	5%

* 2005 national average -- National Association of Realtors
** 1990 Census Data (last year to include Condo stats) and 3% inflation between 1990-2006

College Years 1 - 4	Amount
Tax deductible items at year end	
Fees and liability insurance	$6,250
Depreciation (27.5 years straight line)	$8,182
Mortgage payment	$13,500
Total deductible at year end*	**$27,932**
Tax savings on deductions	$9,776
Annual cash outflow (mortgage, utilities, taxes, condo fees, insurance)	$19,750
Annual rental income	$12,000
Annual cash outflow to execute condo strategy	$7,750
Annual tax savings versus cash outflow	$2,026
Parents' monthly college allocation	$1,000
Monthly outflow to execute strategy	$646
Monthly surplus/shortage to execute strategy	$354
Revenue from executing strategy	

Proceeds on sale of the condo assuming a 5% annual appreciation rate	$48,000
Net Cost to execute Condo Strategy	$8,104
Benefit of Condo Strategy before capital gains/realtor commission or 1031 Exchange**	$56,104

* Depending on AGI the amount of tax deductions may be limited.
** If property is sold after year 4 then a 25% recapture of depreciation taken is incurred.

In addition to the benefits above, you will save the cost of room and board at Davidson College. The current annual cost of room and board at Davidson College is $11,346.

The excess monthly allocation amount of $354 can be used to cover college costs (books, tuition, etc.) or to pay interest on loans secured to cover these expenses. Consider an interest only loan on the primary residence to cover college costs and maximize tax deductibility. The monthly surplus can be invested over 4 years. After college, this investment in addition to proceeds if condo is sold can be used to retire education debt. This prevents after tax dollars from being used to cover education expenses which make the cost of college even more expensive.

Business Ownership Strategies – The following income planning strategies can be employed by the business owner.

This strategy is available because you are interested in removing assets from your estate that will appreciate in value or you are a business owner with income producing property that is fully depreciated. You can gift or sell property to your child and subsequently lease back the property from the child. The leased income could then be used for college while the lease is used as a business expense. This is very effective with fully depreciated property no longer providing tax benefits. Excellent candidates for sale or gift would be business vehicles, storage facilities, real property (land or buildings), and office equipment (furniture, computers, copiers, etc.).

For example: Given your combined federal and state tax rate of 35% (state tax rate + federal tax rate), by implementing this gift/leaseback strategy, for every $1,000 of leasing fees paid to your child, your tax savings will be $350, provided that the student's income is offset by their standard deduction or other deductions (e.g. IRA contribution).

This strategy is available because you are a business owner. You can receive tax benefits by employing your child and shifting income to his tax bracket while receiving a tax deduction with a legitimate employer-employee relationship. With "earned" income the "kiddie-tax" will not apply; likewise, the child will be able to utilize his standard deduction. In addition, if the child is less than 18, earned income received will not be subject to Social Security or self-employment taxes. The child will also be able to contribute to a Roth or Traditional IRA for future college costs and possible tax savings.

Since you are a business owner, your child could be employed in your business and paid a reasonable wage of $5,800 / year and encouraged to save the money for future college costs. Given your combined federal and state tax rate of $35%, the wages would save you $2,030 /year in taxes. The child's taxable income would be $0 ($5,800 of wages - $5,800 standard deduction). Therefore, the total family tax savings would be $2,030 /year. Also, since the child has earned income, he would be eligible to purchase a Roth or Traditional IRA. Note that a regular IRA contribution will offset residual earned income not covered by the standard deduction.

Asset Strategies:

Since the timing of your death cannot usually be predicted, it is prudent to consider having an insurance policy to cover the projected costs of college. Often, a term policy is used to cover the projected costs of college. Evaluate your current life insurance status to determine if it is sufficient to cover projected college costs for this student (in addition to any other children). You have indicated you have the following coverage:

a. Parent = $150,000

b. Spouse = $0

The projected four-year cost at the school selected is $274,073.

Does your current coverage include sufficient amounts for education costs?

Grandparent Strategies – The following strategies can be employed by grandparents who are interested in helping pay for college.

This strategy is available because you have a sick grandparent or the grandparent is interested in helping with college expenses. Here are two options to consider that have significant estate planning benefits for the grandparents. This may be especially important if the grandparent is sick and is looking to reduce their estate:

1. They can make a maximum allowable gift into a 529 plan - which could be as much as $130,000 at one time thereby immediately removing this amount from the estate.
2. Have the grandparent pre-pay all four years of tuition now. The IRS has indicated that advance direct payment of tuition qualifies for the unlimited gift tax exclusion, as long as the payment is non-refundable and certain other criteria apply. This direct payment will not affect their gifting exclusion. For room and board expenses, annual gifts to the grandchildren can be used to cover these costs.

As an example, assume the grandparent is in a nursing home, is in declining health and has a sizable estate that they want to reduce. The grandchild will be attending Davidson College with annual tuition of $40,809 and an additional $14,121 in remaining expenses. The grandparents' could prepay, through direct payment to the school, the four years of tuition of $163,236. The remaining expenses could be covered through annual joint gifts to the grandchild.

Section V

Section III focuses on:

1. The projected **gap / surplus** of college funds based on the projected growth of these accounts given the lead-time and interest rates (adjustable).
2. **College savings strategies**. The criteria for these strategies include lead-time till college and investment philosophy (conservative/growth).

Each of the options included are **rated along key categories** to help the advisor and the client choose wisely based on their circumstances, goals and objectives. When appropriate, client specific **examples are included** that show the benefits of implementing the savings strategy highlighted. Valuable tips and warning are included to assist in the decision making process.

Savings Strategies

Strategies for paying the college bill:

Since you are not likely a candidate for financial aid, you will be responsible for funding the total cost of attendance at Davidson College. The strategies in this plan may effectively decrease this cost, along with any merit based scholarships, tuition discounts, etc.

The following savings and investment types were listed on the data form as allocated for college:

- Cash= $30,000
- Coverdell Educational Savings Account= $10,000
- 529 Savings Plan= $50,000
- Mutual Funds= $50,000
- Student Trusts= $10,000

Growing these investments for the next 3 years till your child begins college yields approximately $170,188. The projected four-year cost of attendance at **Davidson College** using a 5% annual inflation rate is: $274,073.

If there is a shortfall between your available college funds and your **total contribution** consider the following investment and funding strategies:

The following investment strategies are based on the lead-time available to you and your particular investment philosophy. The investment philosophy you have chosen is **Growth**. **Consider the following investment options with the $1,000 you indicated were available for college costs.**

Here is one example of how the savings strategies are included in the report

529 College Savings Plans are tax-deferred trust accounts that are used to pay for qualified education expenses. This includes tuition, fees, books, supplies, equipment and room and board. 529 plan benefits include:

Income Tax Advantages

1. Tax-deferred growth of the investment
2. Withdrawals are tax-free if they are used for qualified education expenses
3. Contributions are treated as gifts and are not considered gross income to the beneficiary
4. The grantor and beneficiary are not subject to tax on income earned during the accumulation period
5. Distributions are excluded from income tax if they are rolled over within 60 days to another 529 or if the beneficiary of the 529 changes to another family member.

Income Tax Disadvantages

There is a 10% penalty on nonqualified distributions; that is, distributions not used for qualified education expenses. In addition, the withdrawal will be taxed as income to the account owner.

Estate and Gift Tax Benefits

1. The money comes out of the donor's taxable estate and the gift qualifies for the annual gift tax exclusion.
2. In 2012, up to $130,000 (for married filing jointly or $65,000 for single filing individual) can be contributed to an account tax-free, assuming no other gifts are made during the five-year period.

Availability and Flexibility

1. There is no income phase-out level for owning a 529 plan. Therefore, high-income earners can participate when other options are not available (i.e. Roth IRA, EE Bonds, etc.).
2. The owner of the plan maintains control of the account. The owner can change the beneficiary of the account and even refund the account (possibly subject to a penalty).

Maximum Contribution Allowed

Each state determines the maximum allowable contribution.

Interaction with Hope and Lifetime Learning Credits

A taxpayer may claim a Hope or Lifetime Learning credit and take a tax-free distribution from a 529 plan as long as the credits and the 529 plan distributions are not used for the same education expenses.

Warning: Be aware that withdrawals from 529 plans are only tax-free if they are used for qualified education expenses. There will be a 10% penalty on any non-qualified withdrawals; for example, a withdrawal to cover qualified education expenses that you were also planning to apply to either the Hope or Lifetime Learning credits. Therefore, you must be aware of the implications of 529 plan withdrawals or you may be severely penalized.

Tip: **Rating of 529 Savings Plan as a college/retirement investment**

Category	Rating
Rate of return vs college inflation	good
Tax favored access for college	excellent
Tax favored access for retirement	poor
Use for college and retirement	poor

Warning: By investing in a 529 plan outside of the state in which you pay taxes, you may lose tax benefits offered by the state's plan. Withdrawals used for qualified expenses are federally tax-free. Tax treatment at the state level may vary.

Section VI

CFS' exclusive 529 Funding Optimization Model uses a **529 college savings plan as the basis for a coordinated college savings and funding plan**. This model leverages a variety of synergistic tax savings strategies in order to multiply the overall tax savings associated with using a 529 college savings plan. The objective is to **most efficiently** achieve the funds needed to cover the cost of college and to maximize the tax savings to the client

Funding Optimization Model

The objectives of this model are to identify:

1. Strategies for saving and paying college expenses.
2. Potential surpluses of funds that could be reallocated.
3. Strategies for covering possible shortfalls in resources available for college.
4. Opportunities to maintain or increase retirement contributions.
5. Tax savings opportunities for the family.
6. Strategies for maximizing education-related tax credits.

Strategy - Employ the student in family business

GOAL:

Employing the child in a family business and compensating the child with a reasonable wage can shift income to the child at a lower tax rate. Consider having the student establish a Roth IRA, which can be used for college and retirement. A Roth is very good as a college savings plan since the contributions can be used tax-free and penalty free if used for qualified education expenses and withdrawals are counted against the contributions before the earnings.

As an example - consider employing the child in the business and pay yearly wages of:

Age	Years Till College	Wage Allowance
15	3	5000
16	2	5000
17	1	5000

18	College Year 1	5000
19	College Year 2	5000
20	College Year 3	5000
21	College Year 4	5000

Consider having the child invest $4,000/year in a Roth IRA and contribute to a 529 savings plan with any excess wage income.

Warning: Restrictions, penalties and taxes may apply unless certain criteria is met, Roth IRA owners must be 59 1/2 or older and have held the IRA for 5 years before tax-free withdrawals are permitted.

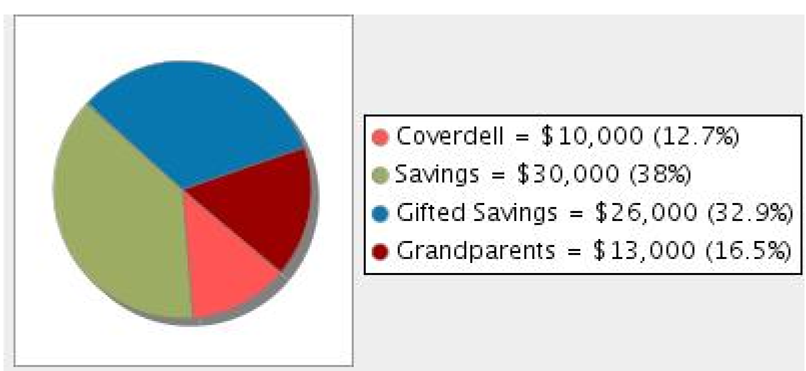
Strategy - Sources for contributions into a college savings plan

The model evaluates a variety of different sources as candidates for possible reallocation as part of a lump contribution into a 529 plan. Assumptions and criteria for consideration:

- In order to maximize efficiency and overall effectiveness:
    a. Lump sum yields superior result than incremental contributions
    b. Sources are evaluated in order of best candidate to worst
- Sources for consideration are ranked starting with the best candidate
- 529 rules taken into consideration
- Only sources that will not yield a negative tax consequence are considered for redeployment into 529 plan
- The rationale for each source is provided
- The tax savings associated with using the state 529 plan are included if relevant.

Consider the following sources for contributions into a 529-college savings plan:

- $10,000 from Coverdell Education Savings Accounts.
- $30,000 from Savings currently allocated for college.
- $26,000 from Savings based on gift intent.
- $13,000 from Grandparents.



Consider the benefits of using the following sources for a lump sum contribution to the 529 savings plan.

1. Any savings already allocated for college. The 529 is superior for the reasons explained in your comprehensive plan
2. Consider moving the balance of the Coverdell Education Savings Account (CESA) that is currently allocated for college into a 529 plan. The balance in the CESA can be withdrawn tax-free and penalty free in a year when equal or greater contributions are made to a 529 plan for the same beneficiary.
   Unless Congress acts to make permanent the current account rules, after 2010, CESA's will revert back to the rules in place in 2001. By redeploying the CESA into a 529, you may be able to benefit from the following:
   - The contribution from the CESA into the 529 will yield a state tax savings if your state plan offers this benefit
   - If your income qualifies you for the education credits, you will be able to claim the credit along with a tax-free withdrawal from the 529 whereas with the CESA you will not
3. Since you indicated you were interested in gifting, consider using savings not currently allocated for college as the source for the gift into the 529 plan. 529 plans only accept cash so there is no tax consequence associated with moving cash into the 529 plan.
4. If grandparents are interested in gifting they can do so into the 529 plan.

You indicated that you could allocate $1,000/month for college costs however; only $544/month may be required after taking into consideration the projected amount of other sources/lump sum contributions. **Consider allocating the surplus in other investments such as: maximizing 401(k) contributions, IRA, or other.**

The model helps the financial services professional answer the question: "**Does the in-state plan tax break from using the state 529 plan outweigh the superior performance of an out-of-state alternative?"**

The **model answers the above question** in a way that can helps the advisor make prudent recommendations to the client.

The answer to the question of the state-deduction benefit is not only knowing what the deduction amount is for the state, but to know what the projected tax savings will be to the client by using the state plan as part of an overall college savings/funding strategy using a 529 plan.

In other words, start with the overall savings/funding strategy and then plug in the state plan to see what the real benefit to the client is of using the state plan. If it's not compelling, then an out-of-state plan may be a better option.

The 529 College Savings and Funding Optimization Model **helps the advisor assess the benefits of the in state plan and justify their recommendations to the client** - either to use the state plan or to forgo it for a better performing out-of-state-plan.

Tip: **Consider the advantages of using your state's 529 savings plan.** Your state offers a state tax deduction on plan contributions. Due to this, your state plan may be more advantageous than other state's 529 plans. **The total tax savings by using your state's 529 plan is $4,968** See footnote for assumptions concerning state tax savings on 529 contributions.

Warning: By investing in a 529 plan outside of the state in which you pay taxes, you may lose tax benefits offered by the state's plan. Withdrawals used for qualified expenses are federally tax-free. Tax treatment at the state level may vary.

Projected Value of Parents' and Student's College Savings

Student resources available for college expenses: $12,622
Student Savings = $1,046
Student Trust Account (UGMA) = $11,576

Parent resources available for college - excluding amounts reallocated for a lump-sum contribution to a 529 or other college investment: $115,794
Mutual Funds = $59,551
Existing 529 = $56,243

Projected value of the parents' 529 plan and non-529 investments using monthly college allocation and lump sum contributions = $109,239

Planning for Education Credits

Your AGI is too high to qualify for the education credits. See the Solutions Plan for strategies to qualify for education credits.

Strategy - Tax Dependency Status of Student

The analysis reveals that there would likely be **no tax benefit** to making the child tax independent of the parents.

Miscellaneous Notes:

This model yields sufficient funds to cover the projected cost of college. However the total available does not include tax on any taxable investments used for college expenses.

Projected cost of Davidson College = $274,074
Gross Funds available = $274,074

Assumptions Used in This Model

1. All of the student's resources are available for college costs.
2. Only student wages available for college are those allocated in the model for "college savings."
3. Investments are grown only up until the beginning of college and then are liquidated over the four years of college.
4. Model uses tax information as of 2011 and projects into the future using this information.
5. A loan on the equity in the home is a 10-year loan with zero points.
6. Any stocks liquidated for the purpose of reallocating to a 529 or other savings plan will yield a tax deduction of $3,000.

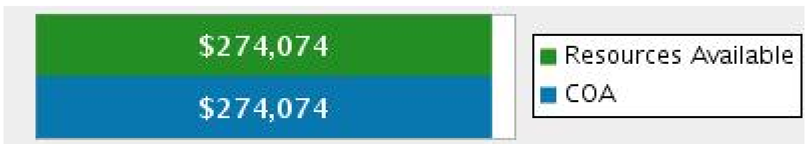
Interest Rate Assumptions

1. College Inflation Rate (Annual) - 5%
2. 529 - 4%
3. Coverdell Savings Account (CESA) - 6%
4. Mutual Funds - 6%
5. Federal Income Tax Rate - 28%
6. State Income Tax Rate - 7%

Results of Implementing the Above Strategies

The projected cost of attending Davidson College is $274,074.
The total amount available for college using this model is $274,074 which is comprised of the following:

- Withdrawals from the Roth = $16,873
- Withdrawals from the parents 529 Plan and any 529 overflow account = $109,239
- Wages paid to student during college years = $20,000
- Student investments = $12,622
- Parents college investments not reallocated into 529 = $115,794
- Subtracting out taxes due by the student = ($454)



Wages paid to student to be used for college = $35,000
Amount Contributed to Roth by student and available tax-free for college = $15,000
Lump sum amount into 529 plan = $79,000
Parent's available monthly college allocation = $1,000
Monthly allocation required by this model = $544
Parent's 529 funds and any 529 overflow account funds = $109,239
Student's tax-free 529 funds available for college = $0
Tax paid by child = $454
Total funds available for college = $274,073
Total tax savings for family = $12,207

Warning: While shifting income to the student through employment may reduce taxes, based on the difference in rates, you will still be responsible for paying FICA taxes. The tax savings in this report are reduced by the amount of FICA taxes due on the student wages

Breakdown of total tax savings:

Tax savings resulting from 529 lump sum contribution:

- Tax savings on state 529 plan contributions = $4,968
- Tax savings on savings contributions to 529 plan = $480
- Tax savings on gifted savings contributions to 529 plan = $416

Pre-College Years:

- Tax savings on wages = $2,205

College Years:

- Tax savings on wages paid to student during college years = $2,540
- Tax savings on 529 earnings (Parent) = $1,599

Footnotes:
If your state offers a tax deduction on state 529 plan contributions, the following assumptions are made:

- The information presented pertains to 529 college savings plans only; in particular, 529 prepaid tuition plans are not considered.
- The calculations are for hypothetical use only and depend on the information you provide. The calculations rely on a number of simplifying assumptions, and the results may vary from your actual situation. As tax laws change and the states adjust their 529 plans frequently, there is no guarantee that the information used in this calculator is accurate or up-to-date. For more information about your state's 529 plan, and to fully consider your personal tax situation, consult your tax advisor.
- Although you may reduce your state income taxes through 529 plan contributions, you may increase your Federal income taxes in the year following the year in which you take the state tax deduction, if you itemize deductions on Schedule A of your federal income tax return. The increase in your federal income taxes is calculated by multiplying the decrease in state taxes paid by your marginal federal income tax rate. This assumes that your marginal federal income tax rate will be the same in both years.
- Only a state's tax brackets, tax rates, and 529 plan tax deduction are used. Some states use more factors in determining tax liability. Therefore, a taxpayer may owe more or less in taxes than the amounts calculated here.
- The only filings statuses used by the calculations are Married Filing Joint and Single. Other filing statuses may change the calculation results.
- Some states have local income taxes. No local taxes have been taken into account.
- Estimated federal income taxes based on 2011 rates. No consideration has been given to federal Alternative Minimum Tax (AMT) issues.
- 529 contributions are considered completed gifts. As such, they qualify for the federal annual gift tax exclusion ($13,000 if filing single, $26,000 if filing joint). With 529 plans, contributions up to five times the annual gift tax exclusion or $65,000 ($130,000 for a married couple) can be made free of gift taxes in one lump sum, per beneficiary. Once you make this maximum gift, however, you cannot make any other gifts free of taxes to that beneficiary for five years.

Section VII

Most families will need loans to help cover the total cost of college. Knowing which options to choose - based on circumstances - can be very confusing. Choosing the wrong option can cost a family thousands of additional dollars on our-of-pocket college costs! The report will include a rank-ordered list of loan strategies - based on their particular circumstances - for covering any shortfalls not covered by family resources or financial aid**.**

This section is condensed for illustration purposes

Loan and Funding Strategies

Loan Strategies:

Reasons to Consider College Loans

Following are reasons, beyond necessity, for a family that may not qualify for financial aid to consider using loans to pay for college:

1. **You Expect Your Child To Have Some Financial Responsibility For Their Own Education** - When a student has a vested interest financially in their education they tend to be more focused about obtaining a degree - sooner than later!
2. **Your Assets Are Invested In High-Yield Investments** - If your family does not qualify for financial aid, here are some reasons why you may use loans instead of liquidating the assets:
   - There may be a significant spread between the interest earned on the investment and cost of the loan. For example, a 2% spread on $40,000 is equal to $800, which yields the same benefit as an $800 scholarship.
   - The cost of liquidating the investment (capital gains, income tax) may be high
   - If your investments are growing on a tax deferred basis, the longer they remain intact, the greater the compounding effect of the interest.
3. **Potential Tax Deduction** - College loan interest is deductible, up to $2,500 annually, within certain income phase-out limits. The income phase-out limit is $60000 to $75000 in Adjusted Gross Income (AGI) for single taxpayers and $120000 to $150000 for married taxpayers.

Advantages/Disadvantages of Various Loans

This section highlights advantages and disadvantages of various loan strategies based on your responses on the dataform. **They are ranked in descending order based on the pros/cons of each as well as your particular situation**.

Stafford Loans

Stafford loans are fixed rate and are not based on financial need. Therefore, the student can obtain this loan, regardless of whether the family qualifies for financial aid. The Stafford loan interest rate is fixed at 6.8%. These loans are taken out in the student's name and therefore, the student will be entitled to the student loan interest tax deduction.

The amounts that can be borrowed by the student are as follows:

1. Freshman year - $5,500

2. Sophomore year - $6,500

3. Junior - 5th year - $7,500

The total undergraduate amount of Unsubsidized Stafford loans that a dependent student can have is $31,000.

The repayment of the Unsubsidized Stafford loan interest begins within 60 days after the final loan disbursement. However this interest can be deferred. The principal repayment does not start until six months after the student graduates, leaves college, or drops below half-time enrollment.

Tip: A Stafford Loan usually offers more benefits for the student than a PLUS loan taken out by the parents and therefore should be considered before a PLUS loan. Here are a couple of reasons:

1. The interest rate on a Stafford Loan is lower than the interest rate on a PLUS loan.
2. Once the student graduates and is no longer a dependent, he can likely claim student loan interest deduction - up to a maximum of $2,500 for each of the 5 years the interest is paid - since his income will likely be below the phase out level. These tax savings can help pay back the loan.

Family Loans

If the parents have assets (cash) earning a low interest rate, there may be a mutual benefit for the parents and the student to have the parent loan money to the student from this account. By charging interest on the family loan that is greater than the earnings on the parents savings but less than the rate that the student would have to pay otherwise, both parties win; the parents can increase their earnings and the student can benefit from interest lower than they would otherwise have to pay.

Private Student Loans

Generally, a private student loan should only be considered after the student has borrowed the maximum amount of Stafford Loans. These loans are similar to a PLUS loan, but are in the student's name. The loan can be approved based on the student's credit. However, by applying with a co-borrower interest rates and fees may result in lower interest rates and fees on the loan. Since repayment of these loans can be deferred until after the college years, a student who does not qualify for subsidized loans may be able to take the interest tax deduction for the interest paid on the loan. Private student loans could be preferable to a PLUS loan if the parents have phased out of the student loan interest deduction.

Home Loan

You may consider using the equity in the home to help pay for college. If you have phased out of the student loan interest deduction (therefore no longer available on PLUS loan interest) then the mortgage interest deduction on the home loan will reduce the real interest rate on the loan. The higher your income, the lower the real interest rate on the home loan (the higher your tax bracket, the greater the interest deduction on the loan). Consider alternatives to using the equity in the home in the form of a non-productive loan. Consider carefully the decision to borrow equity from the home to acquire a depreciating asset, such as a loan. If you are willing to borrow against the equity, consider the benefits of borrowing the equity and investing it in an asset that could be liquidated or borrowed against for college expenses. With interest on the borrowed funds tax deductible (effectively increasing the spread on the cost of borrowing and the return on the investment), and by investing the equity in something that earns compounded interest, you may be able to create an excellent source of funds for college and even retirement - as opposed to simply using the equity in the form of a loan.

Equity Line of Credit - If a home equity line of credit is used to fund college, only the amount of money needed for that year can be borrowed. Therefore, interest will only be paid on the borrowed amount. Cash outflow can be minimized during college years by making only interest payments and larger payments after college. Note that only the amount of the line of credit advanced is considered a debt against the equity and remaining equity will be assessed until it likewise is advanced.

Refinance/Second Mortgage - Since a lump sum is borrowed (in contrast to the line of credit), which probably will not be used all at once, interest is paid monthly on funds not currently needed. Therefore, consider investing the excess funds in a short-term investment until the funds are needed.

The repayment term on residence loans is usually longer than other types of loans, which makes the monthly payments smaller and helps with cash flow.

Section VIII

Assumptions Made in Creating This Report

The following assumptions were used in the processing, analysis and generation of your report:

1. The student will be in college full time.
2. The EFC calculated is based on a dependent student.
3. The college cost and financial aid date Section I was last updated July 2012.