

THE EARLY YEARS - Planning the Trip

For Parents: Starting Out - Kindergarten (or earlier) to Junior High School

WHY COLLEGE?

- **Knowledge**– We live in an information age where knowledge is king. The more you know the better off you will be in a variety of ways down the road.
- **Professional Development and Job Satisfaction**– Most career tracks require education and training to start with and the need for both keeps growing in the marketplace.
- **Flexibility and Self-Improvement**– The rate of change in our information society is astonishing and you have to adjust quickly or fall behind. You may change jobs many times over your working life, or the job you choose will change and you will have to adapt to new requirements.
- **Love of Learning**– The more you learn, the more it contributes to the quality of life. Often cited as the best reason for the investment you make in education.
- **Money**– The more education you have, the more you are likely to earn over your working life. Without postsecondary education and/or training of some kind, the possibility of a working life marked by low wages, minimal benefits and periodic unemployment is much greater. *A two- or four-year college program may not turn out to be the answer for every child, but it is an option that every child should have.*

Education pays in higher earnings and lower unemployment rates

Unemployment rate in 2006 (Percent)	Education attained	Median weekly earnings in 2006 (Dollars)
1.1	Professional degree	\$1,474
1.4	Doctoral degree	1,441
1.7	Master's degree	1,140
2.3	Bachelor's degree	962
3.0	Associate degree	721
3.9	Some college, no degree	674
4.3	High-school graduate	595
6.8	Less than a high school diploma	419

Note: Data are 2006 annual averages for persons age 25 and over. Earnings are for full-time wage and salary workers.
Source: Bureau of Labor Statistics, Current Population Survey.

If you build the expectation of college attendance for your child in everything you say and do, your child will believe you and work to make college a reality. If you discourage the expectation of college in any way your child will also believe that and act accordingly.

GETTING YOUR CHILD ON THE COLLEGE HIGHWAY

Preparing for your child's college education means more than just saving money. It also means preparing children academically and socially. Parents hold the key to a child's college future. If you want your child to go to college – say so! And, start that conversation as soon as your child can talk.

If you do only one thing to help your child prepare for school, *emphasize reading*. When parents help their children become lifelong readers, they provide unlimited opportunities for growth and learning. Reading enhances imagination and vocabulary and can help children increase their awareness of the world. The following are some things to help teach reading skills to your child:

- Set aside time to read to your child every day.
- Start early! Even if you think that your infant is too young to value or understand stories, the habits that you help them develop will take root.
- Limit television time.
- Let your toddler “read” a favorite story to you, even if only telling the story based on memory and the pictures.
- Ask your child questions about the story as you read.
- Encourage your pre-schooler to “write” his or her own stories.

Once your child is in school, watch for progress in reading and math carefully. You are not alone. Teachers welcome parent contact because they know that if the parents are involved, teaching is easier and more effective. If you are meeting with your son or daughter's teachers, and you should be, consider these tips for an effective conference:

- You are building a partnership. Ask about things that you can do at home to reinforce what is going on in the classroom.
- Be prepared. Talk to your son or daughter before you meet with the teacher and try to find out what he/she feels is going well or not well. Get specific details. Ask your child what his or her favorite and least favorite classes are and why.
- Be an informed parent. Become familiar with the subject matter your child is studying and have samples of his or her homework and test papers with you, especially if you have specific concerns about your child's performance.

- If you want to know more about how your child is doing, ask to visit the classroom, especially during times when your child’s most challenging subjects are being taught. If you have the time, offer to volunteer in the classroom. Let the teacher know that your child’s education is important to you.
- If your child is having problems in school (and these can range from boredom from lack of challenge to keeping up with the basics in reading and math) find out what you can do to help, and the sooner the better.

STUDENTS WITH SPECIAL LEARNING NEEDS OR WHO REQUIRE OTHER SUPPORT

By law, parents have the right to approach the school and ask for a meeting to discuss special help available to their son or daughter. The school has a clear process for considering the request. Often, small changes can be made that make a big difference in your child’s education. Any solution requires teamwork from both the school and the family. If you have any questions about special needs, call your son’s or daughter’s school or the state department of education. You can also contact organizations such as Learning Disabilities Association of Maine at **(207)465-7700** or **www.ldame.org**.

Outside resources can also help. Special programs such as Sylvan Learning Centers (**www.educate.com** or **1-888-EDUCATE**) can boost reading levels and build math skills. Ask your child’s teacher or guidance counselor what resources they recommend in your area.

Time and effort spent in the pre-school and elementary years will result in success later. The confidence that students gain as they master basic math and reading skills will pay huge rewards throughout their education and later in their careers. Many schools also offer children extra opportunities to develop knowledge and skills in areas such as science and the arts. They can include both before and after-school programs. Ask your child’s teacher or guidance counselor for more information about them.

RESULTS: What You Want to See In Your Child Before High School Starts

- *Sense of accomplishment about what I have already done*
- *Comfort with school work— a feeling of “I know what I am supposed to know”*
- *Confidence— I am ready for what comes next*
- *Reading skills and math skills are at or above current grade level*
- *Conviction that “I WILL go to college!”*

RESOURCES

Home schooling

www.adprima.com
www.hslda.org
www.kiddsmart.com
www.nhen.org

Learning disabilities

www.ldame.org

Pre-school sites

www.preschooleducation.com

Publications for parents

www.ed.gov
www.maine.gov/education

Supplemental learning/tutoring

www.educate.com

THE EARLY YEARS - Saving for the Trip

For Parents: Save Now to Help Pay Later

What you don't save now will likely be what you must borrow later. Saving is your promise to your child that he/she **will** go to college!

When it comes to savings, time is just as important as the amount. Saving \$50 per month for 5 or more years could cover **all** tuition charges for 1, 2 or even 3 years at most public and many private colleges.

The cardinal rule is: save whatever you can for as long as you can. Time and saving regularly can be more important than the amount.

TWO REASONS TO SAVE FOR COLLEGE

- For most of us, a college education has gone from the dream of a few to an economic necessity!
- A college education is expensive. The student and family, more than likely, will have to pay for at least some of the cost and the earlier you prepare for that, the better off you will be!

HOW MUCH – HOW LONG?

The simple fact is that saving will help and the sooner you start, even if it's only a small monthly amount, the better off you will be when the first college bill arrives. The important thing is to start early and stick with your savings plan right up to college admission. Even small amounts, over time, add up!

Total Saved plus Earnings (of 5%) Over Time

MONTHLY SAVINGS	AT 1 YEAR	AT 5 YEARS	AT 10 YEARS	AT 15 YEARS	AT 18 YEARS
\$10	\$123	\$683	\$1,559	\$2,684	\$3,506
\$25	\$308	\$1,707	\$3,898	\$6,710	\$8,767
\$50	\$617	\$3,415	\$7,796	\$13,420	\$17,533
\$75	\$925	\$5,122	\$11,679	\$20,130	\$26,299
\$100	\$1,233	\$6,829	\$15,593	\$26,840	\$35,066

Here are some important points for you to consider:

- Financial aid is available for most, and may cover a lot of the cost.
- You do not have to save enough to pay the whole college bill. When the time comes you can still pay part of the cost from current income, future income (loans) and other family assets.
- A reasonable savings goal might be 25% of the college bill.
- Your child will pay a significant part of the cost from his/her own earnings and from readily available student loans. Typically, students pay 25% or more of the entire cost of education from these sources, even at high cost colleges.

- There can be tax advantages to saving for college.
- Whatever you save will give you security and flexibility in paying for education over time. If you borrow, the savings can be used to help pay education loans back.

WAYS TO SAVE

There are a lot of options available. You can learn about them by going online or calling your bank, credit union or financial advisor. There are many books and magazines you can purchase, but most of the information you need is free. The guidance office at your local high school is a good source for information about admission to and paying for college. You can also request information from the federal government. Some of the most popular options are those designed specifically for college saving. They are flexible and carry tax benefits when used to pay for education. They include:

Qualified Tuition Programs (QTP) or "529" Plans

These are accounts specifically created for college savings. They are named after the Federal Internal Revenue Code Section 529 that gives them special tax status for federal income tax purposes.

Earnings grow in a 529 account on a **tax-deferred** basis (meaning no income tax is due on the earnings while invested in the 529 account), and the earnings are not taxed when the money is taken out for qualifying education costs (this is called a **qualified distribution**). The money can be taken out for non-educational expenses, however, this is called a **non-qualified distribution** and there is both a 10% penalty (for federal purposes) and any earnings can be taxed at ordinary income rates (both at federal and state levels). Some states even offer a tax deduction on contributions, or other benefits such as scholarships and matching contributions. Beginning January 1, 2007, there is a State tax deduction, up to \$250 per beneficiary, available for Maine taxpayers who make contributions to any 529 plan. Contributions can be small or large and many plans offer automatic monthly payment arrangements; there are no family income limits; 529 plan fees are usually low and there are multiple investment options. There are two general types of 529 programs – *College Savings Plans* and *Prepaid Tuition Plans*.

- **College Savings Plans** College Savings Plans have grown in popularity since the favorable changes in federal tax treatment as a result of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRAA). Almost all fifty states now sponsor one or more College Savings Plans. State tax implications vary depending upon state of residence and in which plan you invest. Check with your tax advisor or financial planner for more details. You can usually invest in any plan, but like anything else, we advise shopping around and making sure you understand how the program works. There are significant differences from plan to plan so it is worth looking around to see which plan will work best for you.

According to "**Trends in College Pricing**" published by the College Board, the average tuition and fees (excluding/including room and board) for the 2007-2008 school year was:

- \$2,361 at a 2-year public institution
- \$6,185/\$13,589 at a 4-year public institution
- \$23,712/\$32,307 at a 4-year private institution

Why not just rely on financial aid?

Financial aid can make it possible to attend college, but it more than likely will not pay all of the costs.

- You might need aid, but most colleges do not have enough money to help everyone who needs it.
- You will have to pay some of the cost and the money will have to come from savings, your current income or future income (loans.)
- A lot of financial aid is in the form of subsidized loans. Savings can be used instead of loans or, to help pay loans back and reduce their total cost. They can help you buy more education at a lower cost.

Myth

"But won't savings hurt financial aid?" Not really. *Financial aid eligibility is based primarily on current income and family size. Parents are expected to contribute less than 5% of their assets. Savings might lower aid eligibility a bit, but you are not likely to lose out entirely and the payment flexibility you gain will more than offset such a loss.*

CAUTION

**Ask about fees
and commissions!**

One of the best resources available for information about 529 plans and Coverdell ESA is at www.savingforcollege.com or in print– **“The Best Way To Save For College”** by Joseph F. Hurley, CPA.

SHORTCUT

Refer also to the **Summary of Federal Tax Benefits for Education** on page 38.

Compare the following plan features before deciding:

- ~ Plan fees (including administrative fees and fund expenses) – these can vary quite a bit.
- ~ The plan’s investment performance.
- ~ State tax treatment for contributions and distributions.
- ~ Special incentives, such as matching contributions or waiving certain fees.
- ~ Plan restrictions, such as whether or not rollovers are accepted from other plans or the circumstances under which ownership or beneficiaries can be changed.

• **Prepaid Tuition Plans** Prepaid Tuition Plans, generally speaking, lock in tuition when the plan starts so that you pay for college now, at today’s rates, for an education later. By buying tuition units at the current price, the units grow over time to lock in the cost of future tuition for a designated beneficiary. However, if the school chosen is not a plan participant, the prepaid units must be used at another school that will accept them. There are often penalties or reduced benefits when this happens. Unlike the College Savings Plans, only a handful of states have established Prepaid Tuition Plans, and these programs guarantee tuition only at public schools within the state offering the program.

The Independent 529 Plan is a private college prepaid tuition plan offered by Tuition Plan Consortium, a membership organization with the support of over 250 independent colleges and universities. It operates much like the state sponsored prepaid tuition plans except that the future tuition units purchased can be used at any of the plan’s member colleges and universities.

• **Coverdell Education Savings Account (ESA)**

The Coverdell ESA (formerly called an Education IRA) allows you to contribute up to \$2,000 per year per beneficiary, if you meet the income guidelines. The beneficiary must pay a 6% excise tax each year on excess contributions that are in a Coverdell ESA at the end of the year. The money grows **tax-deferred** (see page 7) and earnings are not taxed when used for qualified educational purposes (including elementary and secondary school, and college). Non-educational distributions or distributions that are more than your adjusted educational expense will face a 10% penalty, for federal income tax purposes, and earnings will be taxed as well. There is full flexibility on how you choose to invest the money.

• **Early IRA Distributions**

Some IRA’s, including Roth IRA’s, have provisions that allow for early distributions for qualified education expenses without incurring the normal 10% penalty. Because these arrangements

have various tax consequences, along with effects on retirement planning, you should seek professional advice.

- **U.S. Savings Bonds**

Generally, you must pay tax on the interest earned on U.S. savings bonds, however, when you cash in certain savings bonds under an education savings bond program, you may be able to exclude the interest from income. A qualified U.S. savings bond is a series EE bond issued after 1989 or a series I bond. The owner of the bond must be at least 24 years old before the bond's issue date.

Other Savings Options That Can be Used for College

There are a number of investment options you can choose from that do not have the federal and state tax advantages outlined above, but there is no limit on how much can be invested by any number of interested parties and your money is available for other needs should they come up. Some examples include:

- **Custodial Accounts** Parents, relatives, or friends can invest in savings, mutual funds or stocks in the name of the minor.
- **Stocks** Investing in high quality stocks or mutual funds should out pace college inflation and build equity in an education nest egg.
- **Mutual Funds** Funds are available for investing in nearly anything, but typically are invested in stocks, bonds or money market accounts.
- **Bonds** Purchased bonds at a fixed interest rate to be paid to the holder in the future (i.e. corporate bonds, US Government Agency bonds, municipal bonds, etc.)
- **Money Market Accounts** These are like savings, typically at a higher interest rate. They are not federally insured.
- **Certificates of Deposit** Savings programs for a fixed period at a higher rate of interest than offered by a regular savings account. They are federally insured up to \$100,000.
- **Others** There are various possibilities under such things as the Uniform Gift to Minors Act (UGMA) or Uniform Transfers to Minors Act (UTMA) along with several trust and family partnership options. Legal and tax issues are complicated so professional help is essential.

Most of these programs operate through financial institutions, brokerage services, banks, or credit unions. Ideally you will be working with your financial advisor for a long time, so find someone whom you (1) trust and (2) know you can work with. Most have state licenses and credentials and should be able to provide you with references. It does not hurt to ask your friends, relatives and neighbors about their experiences with financial advisors and savings programs, **but you will want to form your own opinion.** Talk to several different representatives of investment programs before choosing the program that you will use. Above all else, investigate and choose the program that seems best for you and fits your circumstances.

Some of the favorable tax changes relating to college savings options are due to expire on December 31, 2010, unless extended prior to then. It is likely that some, if not all, of these provisions will be extended prior to that date.

Whose name do I use on the program?

Assets in the parents name are generally treated more favorably for financial aid purposes than student assets. 529 plan assets are treated as assets of the account owner, not the beneficiary (student). However, for some families there may be other factors to consider besides financial aid. Ask your financial aid advisor to work through all the options with you.

Refer to "Paying For The Trip" on page 19 for information on how parent and student assets affect financial aid eligibility.

RESOURCES

Saving for college

www.collegesavings.org
www.collegefinancialplanning.com
www.famemaine.com
www.finaid.org
www.independent529plan.org
www.kiplinger.com
www.mesfoundation.com
www.money.com
www.savingforcollege.com
www.smartmoney.com

Savings calculators

www.finaid.org
www.studentaid.ed.gov