STEPPING STONES

Exploring Financial Pathways

Planner Article: A Course on College Funding

Last October, I gave birth to my 3rd and 4th children (they were a package deal). After a long wait to become a parent, I now have 4 kids under age 4. They are fun, smart, sweet and expensive! And I hear it only gets worse, culminating with the pièce de résistance... college.

My "Future Collegians"

Fortunately, there is a plan for that! Except, there are several. And so many questions… How much college should I fund? Which savings plan is best? What will college cost when my kids get there? (Class of 2034, anyone?)

(*Continued on Page Two)*

In This Issue:

Staff Adventure: Welcome Whitney!

Hello! My name is Whitney and I am the newest member to the Pathways family. My role as Operations is to assist our clients with cash requests and deposits, monitor daily account activity, and support the Planners and Paraplanners. I am from Fresno and have my degree in Business Administration with an emphasis in Accounting from Fresno State, Go Dogs! I am very excited to learn my new role and I look forward to getting to know you all.

-Whitney Knod

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(*Continued from Page One*)

I find that parents span the spectrum regarding the amount of college they wish to fund. Some of my clients wish to pay all they can, hoping their child can simply focus 100% of their efforts on school. Other clients consider college funding a responsibility of the student. Perhaps they worked their way through school, found it to be a character-building experience and wish the same for their child. Many clients lie somewhere in the middle of these two examples. There is no right answer; the choice is a personal one. And sometimes, it requires compromise between parents.

There are several ways to save for college. Some of the most common are savings bonds, ESAs (Educational Savings Accounts) and 529 Plans.

Savings Bonds are issued by the U.S. Treasury Department and are backed by the full faith and credit of the United States government. At redemption, you can exclude the interest from your taxable income, if it is used to pay tuition and fees for post-secondary education. You can pay qualified higher education expenses for you, your spouse or any dependents you claim as exemptions on your tax return. However, the owner must be at least 24 years old before the bond's issue date. For example, buying a bond for a child or grandchild in their own name will make the bond ineligible for the tax exclusion, unless the child is 24 years of age or older when the bond was issued. And there are income limits on the tax-exclusive nature of the bonds (although interest from savings bonds for education is always exempt from state and local taxes, regardless of your income). It should be noted that the U.S. Treasury has stopped selling paper bonds, so the gifts must be in the form of electronic EE savings bonds. Even so, many people look at savings bonds as the "old school" form of college savings.

Educational Savings Accounts (ESAs) allow you the opportunity to invest in a variety of funds, which can allow for growth of the assets (but also subjects the assets to market risk). The growth is tax-deferred and withdrawals from the accounts are tax-free, if they are used for qualified education expenses: tuition, fees, books, room and board. A unique feature of an ESA is that the monies can be used for preschool or private school, not just college and trade schools. These accounts must be set-up and managed by a parent or guardian and contributions are limited to $2000 per year, until the beneficiary reaches age 18. Assets must be used before the beneficiary reaches age 30 to avoid penalties and taxes on the remaining account balance. (Account can be rolled over to a qualified family member.) There are income limitations on contributions and penalties apply if the funds are not used for school expenses.

(*Continued on Page Three*)

Planner Article: A Course on College Funding

(Continued from Page Two)

The college savings plan we typically recommend most is the 529 Plan. As with the ESA, it allows you to invest in a variety of funds, giving you opportunity for growth (along with the accompanying risk). This growth is tax-deferred and withdrawals from the accounts are tax-free, if they are used for qualified education expenses. Unlike the ESA, monies can only be used for post-secondary education. Also, anyone can set-up or manage the account for any student, not just a parent or guardian, and the donor is in control of the account. There is no income limit on contributions and the contribution limits are much higher. The beneficiary can be changed to a qualified family member at any time, which is a great option should you find you overfunded the account. Penalties apply if the funds are not used for college expenses. Each state sponsors their own 529 Plan. Although you do not have to invest in your state's plan, some states offer tax-advantages for doing so. (Note: At this time, California does not offer a tax advantage for contributing to 529 Plans. Thus, for residents of California, investment options and fees should be the driving force when deciding what state's plan to choose.)

How much should we save? That depends on many factors. How much college do you want to fund? How long do you have to save? Where would your child attend school? The differences in attending a local state college versus an out-of-state private institution are vast. Historically, college costs inflate an average of 6% per year. For fun, I calculated what it might cost my oldest child (Katelyn - 3 years old) to attend my Alma Mater (Long Beach State).

Katelyn's freshman year (in-state tuition, room & board, books & supplies) may cost approximately $45,000 in 2030, and potentially $200,000 to fund all 4 years. At an average 10% rate of return, I would need to save approximately $500 a month to fund the entire bill.

Katelyn – 3 Years Old
At this time, she majors in being cute and sassy…

(Continued on Page Four)

Planner Article: A Course on College Funding

(*Continued from Page Three*)

There are many variables to deciding how and where to save for college. Whether you are a new parent, a seasoned parent or a grandparent (which I hear is the most fun), putting some away now can reap big rewards later. Navigating the options can seem like a huge task, so let us be your co-pilot. I am sure the youngster in your life will appreciate the foresight.

Now where did I put Katelyn's piggy bank…

-Michelle Carter, CFP®

Save the Date: October 5th, 2015

We are happy to announce a Client Appreciation Event on October 5th, 2015 at Fresno State's campus. Please mark your calendars and join us for an evening of drinks, hors d' oeuvres, and a presentation from Dimensional Fund Advisors. More details to come…

PATHWAYS ANNOUNCEMENT

(In case you missed it…)

We are pleased to announce that Jeff Karst has recently purchased an ownership stake in Pathways. Jeff will serve as Vice-President of the corporation. As described in the announcement email, this transaction is the latest step in an ongoing effort to create continuity and a consistent, sustainable service to all clients.

Our clients have long been of many generations. Now we are as well.

Thank you for your ongoing faith in us.

Pathways