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## Personal Education Analysis

# Allen & Betty Abbett

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Sample Financial Plan - TOTAL Goal-Based Planning



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IMPORTANT: The illustrations or other information generated by this report regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results.

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## Saving For College

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Recent changes in income tax regulations have provided a variety of opportunities that should make saving for your child's education expenses more palatable. In some cases current education expenses can result in current tax savings, and putting aside money for future costs can be much more tax-friendly than in the past.

#### 529 Plans:

Section 529 of the Revenue code has enabled states to establish special college savings funds where parents or grandparents can make deposits to an account to accumulate money for tuition and in some cases other expenses. The terms and benefits of each state vary, but generally include the following features:

- Tax savings - earnings on the accounts not only accumulate without federal income tax, but withdrawals are also tax free so long as they are used for qualified educational expenses. Some states also allow withdrawals free of state taxation, and many states permit a deduction for a portion of plan deposits, but the rules of each state vary. Also, withdrawals from 529 plans that are not used for qualified educational expenses are generally subject to both federal and state taxation plus a 10% penalty.
- Control - unlike other accounts sometimes used to accumulate money for the child, you, the donor, stay in control of the assets. You decide when withdrawals are taken and for what purpose. And in most cases you can even reclaim the funds, particularly if the child elects not to attend college. (There may be a penalty for "non-qualified" withdrawals.)
- Simple - once you select which state plan to use, a simple enrollment form is completed, and deposits may even be made by automatic checking account withdrawals. The account is managed by the state or an investment manager hired by the state.
- Everyone eligible - generally there are no special eligibility requirements, and the amounts you can contribute in many states are substantial (in some cases as much as \$250,000 or more.)

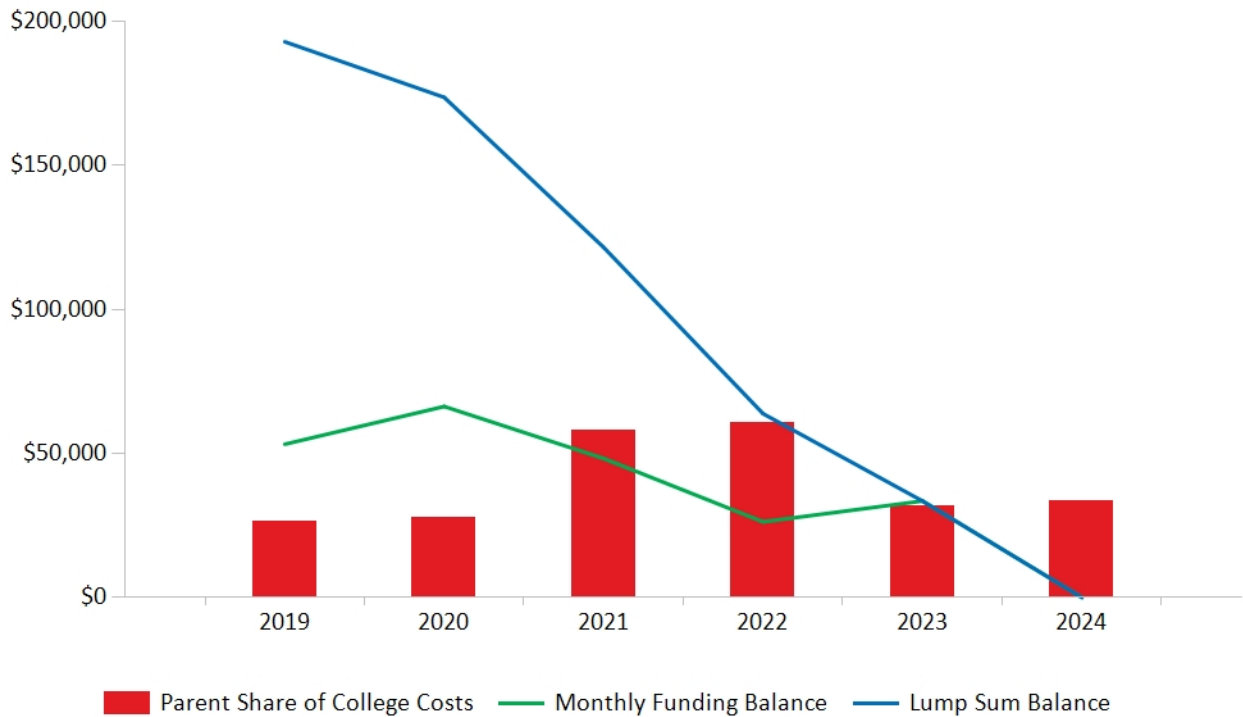
#### Other education plans:

- Coverdell Education Savings Accounts - the nondeductible contribution may be used for "qualified higher education" or "qualified elementary and secondary education expenses", including private institutions. The maximum allowable contribution is \$2,000 subject to certain income limitations. The plan is integrated with the HOPE and Lifetime Learning Credit programs.
- Employer provided assistance - the \$5,250 contribution level now extends the exclusion to graduate courses and makes the exclusion for undergraduate and graduate courses permanent.
- Student Loan Interest Deduction - the availability for this benefit has been broadened and the earnings limits raised.

For more information about these plans or to compare your state 529 plan with other states, go on the internet to... [www.savingforcollege.com](http://www.savingforcollege.com)

# Education Funding

Sample Financial Plan - TOTAL Goal-Based Planning



The "Parents Share" bars indicate the parents share of the needed annual expenditures for the years when each child is in school. The "Balance" line indicates the cumulative account value of monthly deposits to the education fund. The "Lump Sum" line represents the initial deposit of a single lump sum to an education fund and the projected growth or consumption of the account.

### Funding education costs with a lump sum investment now:

— Lump sum needed today to fund future costs	\$200,000
Funds now available for college expenses.	\$32,300
<b>Additional lump sum needed now</b>	<b>\$167,700</b>

A21

### Monthly funding with level payments through the last year of college:

— Total level monthly payments to fund costs	\$2,693
Current deposits	\$200
<b>Additional deposits needed</b>	<b>\$2,493</b>

A21

## Education Costs

### Sample Financial Plan - TOTAL Goal-Based Planning

Providing educational funds can be one of life's greatest financial burdens. Fortunately, it is an expense that can be planned. The following illustration uses a rate of return of 5.00% for computing both a lump-sum and a monthly deposit funding method.

Student's Name	Age	Number of Years	Starting Year	Annual Costs	Parent's Total Costs			
					Today's Dollars	Inflated at 5.00%	Funding Amount Required	
							Lump Sum	Per Month
Bonnie	15	4	2021	\$25,000	\$100,000	\$124,738	\$100,000	\$1,605
Andy	17	4	2019	25,000	100,000	113,141	100,000	2,298
<b>Totals</b>				<b>\$50,000</b>	<b>\$200,000</b>	<b>\$237,878</b>		

#### Lump Sum:

This is the amount of money that would need to be set aside immediately to cover all costs assuming that the funds are spent at the beginning of each year. It is assumed that interest is added each year on the unused balance.

#### Monthly Deposits:

Instead of pre-funding the education costs with a lump sum deposit, you could elect to accumulate funds by making monthly additions to a savings or investment account. In this case a required monthly deposit is computed that would provide enough funds to cover costs through the last year of education expenses.

#### Method #1 - Separate accounts for each child:

The benefit of separate account funding method is that the funds may be segregated and identified for each child. The disadvantage is that this method generally will require a much larger monthly deposit in the early years and smaller deposits in the later years. For example, if there are three children starting school at different years, the deposits might look like this:

*Period 1 (The chart below is an example only and does not relate to your plan.)*

Child 1 = \$400 per month	Period 2	Period 3
Child 1 = \$350 per month		
Child 1 = \$300 per month		
Total deposits per month \$1,050	\$650	\$300

#### Method #2 - A single level payment amount used for all children:

If you use a single monthly amount, then the payments would be level throughout the education years. This method is generally easier for most families to afford.

*(The chart below is an example only and does not relate to your plan.)*

Funding for all children using level payments = \$625 per month
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## Education Funding

### Sample Financial Plan - TOTAL Goal-Based Planning

The following schedules illustrate the education funds needed, using an after tax rate of return or a 529 education funding account. The options include separate accounts for each child, pre-funding with level monthly deposits through the last year, or a lump sum deposit. The results shown are not guarantees or estimates of future results but are for illustration purposes only.

Year	Annual Costs	Monthly Deposit*		Lump Sum*		
	Parents pay 100.00% inflated at 5.00%	Separate Accounts Monthly Deposit	End of Year Balance	Single Account Monthly Deposit	End of Year Balance	Needed Today Growing at 5.00%
			\$32,300		\$32,300	\$200,000
2018		3,264	73,967	2,692	66,955	210,000
2019	26,250	3,264	90,155	2,692	75,780	192,938
2020	27,563	3,264	105,774	2,692	83,668	173,644
2021	57,881	3,264	90,339	2,692	60,116	121,551
2022	60,775	1,368	47,828	2,692	32,348	63,814
2023	31,907	1,368	33,502	2,692	33,502	33,502
2024	33,502					

**Totals 237,878**

#### Funding education costs with a lump sum investment now:

Lump sum needed today to fund future costs	\$200,000
Funds now available for college expenses.	\$32,300
<b>Additional lump sum needed now</b>	<b>\$167,700</b>

#### Monthly funding with level payments through the last year of college:

Deposits needed considering \$32,300 available now	\$2,693
Current deposits	\$200
<b>Additional deposits needed</b>	<b>\$2,493</b>

*\* If the education funds do not earn at the rate illustrated, it would require either a larger amount of initial lump sum investment, larger monthly deposits to the education fund, or education loans to finance the costs.*

## Education - Separate Accounts

### Sample Financial Plan - TOTAL Goal-Based Planning

If separate accounts are maintained for each child's education funding, then the following report will illustrate the amount of expenses in each year, and both the immediate lump sum required and the amount of monthly deposits required to create an education fund for each child.

The projection assumes use of a 529 college fund or an after tax rate of return on required funds at 5.00%.

Child	Bonnie	Andy	Totals	Monthly Deposits
Per Year	\$25,000	\$25,000	\$50,000	
Lump Sum*	\$100,000	\$100,000	\$200,000	by Year
Monthly**	\$1,368	\$1,896		\$3,264
2018				\$3,264
2019		26,250	26,250	3,264
2020		27,563	27,563	3,264
2021	28,941	28,941	57,881	3,264
2022	30,388	30,388	60,775	1,368
2023	31,907		31,907	1,368
2024	33,502		33,502	
<b>Totals</b>	<b>\$124,738</b>	<b>\$113,141</b>	<b>\$237,878</b>	

Note: If existing education fund balances or monthly additions exist then the amounts shown above would be reduced accordingly.

\*Lump sum is the dollar amount needed today to fund the expenses assuming a 5.00% after-tax or tax-free return on education funds.

\*\*Monthly deposit needed from now through the last year of school to fund the expenses.

# Education Funding Sources

## Sample Financial Plan - TOTAL Goal-Based Planning

Ages	Year	Education Fund Balance (begin year)	Annual Additions	Annual Costs	Annual Growth at 5.00% Year	Sources of Funds	
						From Education Funds	From Assets
		<sup>1</sup>	<sup>2</sup>	<sup>3</sup>	<sup>4</sup>	<sup>6</sup>	<sup>7</sup>
53 51	2018	\$32,300	\$2,400		\$1,671		
54 52	2019	36,371	2,400	(26,250)	562	26,250	
55 53	2020	13,083	2,400	(27,563)		15,483	12,080
56 54	2021		2,400	(57,881)		2,400	55,481
57 55	2022		1,200	(60,775)		1,200	59,575
58 56	2023		1,200	(31,907)		1,200	30,707
59 57	2024			(33,502)			33,502
60 58	2025						
61 59	2026						
62 60	2027						
63 61	2028						
64 62	2029						
65 63	2030						
66 64	2031						
67 65	2032						
68 66	2033						
69 67	2034						
70 68	2035						
71 69	2036						
72 70	2037						
73 71	2038						
74 72	2039						
75 73	2040						
76 74	2041						
77 75	2042						
78 76	2043						
79 77	2044						
80 78	2045						
81 79	2046						

Note: The parents share of education costs are included in personal expenses.

Note: Education expenses are increased at 5.00% per year