FINANCIAL ADVOCATE | Volume 12, No. 3

INVEST IN YOUR CHILDREN'S FUTURE

Looking for a good investment? A college education is a wise choice for your children's future. According to the U.S. Census Bureau, people with a bachelor's degree earn 62% more on average than high school graduates. That can add up to $1 million or more in lifetime earnings.

Most parents agree they want to give their children this kind of advantage. Yet, while 97% of parents surveyed in a 2006 poll conducted by Harris Interactive and the Wall Street Journal expect their children to attend college, 32% admitted they had not saved any money specifically for college. That may be a problem.

According to the College Board, average costs for four-year colleges (both public and private) have risen dramatically in the past decade, far outpacing inflation and most parents' pay raises. For the 2005-2006 school year, tuition and fees for a four-year private college averaged $21,235 per year (a 5.9% increase over the previous year). Four-year public colleges averaged $5,491 per year (up 7.1%); a two-year public college was $2,191 (up 5.4%). And by the way, this does not include room and board, trips home, or incidental expenses.

Feeling overwhelmed? Just about everybody is. There is hope, however.
- Start early and invest regularly. You just might be able to save enough. Even a late start reduces loans that might be needed.
- Use a combination of savings, current income, and loans. That's how most families pay for college.
- Don't let the full cost of college discourage you. About 60% of all college students receive grant aid. In 2005-2006, it averaged $3,300 at a public four-year college; $9,600 at private colleges.

Think of college as a legacy to last a lifetime. Whatever sacrifices are made in the short term are more than repaid in the long term. Look inside this issue to help you prepare for one of life's most important "finals" – going to college.

ARTICLES OF INTEREST

DST 1040 Ed. 10-06

Whether you started saving the day your baby was born or you're just getting started, having a plan makes a difference. Your financial professional can help you evaluate your options and come up with the best solution.

What's the Price Tag?

How much college costs depends on several factors. Will your child be attending a public or private school? How many years before he or she starts college? See "Future Cost of College" on the next page.

Start with a Plan

Figure out how much you can comfortably save without neglecting other important goals, especially retirement. You can borrow money for college, but not to retire on.

Your plan will depend on the age of your children or grandchildren. If they're young, time is on your side.

Get started by setting aside small, regular amounts and increase every year. For example, giving up a double cappuccino each day can add $1,000 to the kids' college fund. It's going to take more than that, of course. You can put more into college savings by driving the car you now have for a few more years or scaling back on your annual vacations to the mountains or the beach.

The key is starting sooner rather than later. If you set aside $100 a month starting when your child is born, you will have $34,920 in 18 years (based on 5% compound interest). Wait until the child is 13 and you need to save $500 a month to accumulate $34,003.

Ways to Save

It's going to take something a lot bigger than a piggy bank to save all you need for your scholar to go to college. As you consider these choices, ask questions like: What are the maximum contributions? Who controls them? What are the tax benefits? What are your investment options?

529 Plans—These state-sponsored plans grow tax-free if used for college. You can contribute large amounts and might get a state tax deduction. Since they are considered a parental asset, they have less impact on financial aid. Investment choices may be limited. Watch out for fees and expenses.[1]

ESAs—Educational Savings Accounts offer flexible investment choices that grow tax-free if used for college. Money can be used for primary and secondary schools. The annual contribution limit is $2,000. Some high-income families may be ineligible.

UGMA/UTMA—Uniform Gifts to Minors Act and Uniform Transfers to Minors Act are in your child's name, but parents (or grandparents) have control until your child turns 18 or 21 years old (age of majority varies by state). Interest and gains are taxable at the child's tax rate. Choose how to invest the money and use it for any purpose. May affect eligibility for financial aid.

Only Four More Years

The high school years are an important time to focus on financials—for parents and students alike. Continue your saving regimen, but start looking diligently for financial aid. Focus on extra-curricular activities that will look good on college applications. After all, applying for college is a lot like applying for a job. The more impressive your resume, the better your chance of getting an offer.

Freshman/Sophomore Years

Parents: If you're just starting to save for college, you'll need sizable regular donations. Low-risk investments such as A-rated bonds, certificates of deposits, or an income mutual fund are good. Look into home equity loans or low-interest student loans. _Students_: Look for summer jobs/internships that can give you experience in a line of work you might want to pursue. Consider college summer school programs. Talk to your counselor about taking Advanced Placement courses. Check out colleges on-line or at college fairs to learn about costs and financial aid.

Junior Year

Parents: It's never too late to start saving, but at this point you need to be realistic. It's unlikely your money will appreciate significantly. Save what you can, but also start applying for all types of aid.
Students: Prepare materials for college applications: writing samples, portfolios, and a list of activities and work experience. Decide who to ask for letters of recommendation.

Senior Year

Parents: Review financial aid packages with school counselors. For 2004-2005, The College Board estimated over $129 billion was available.
Students: Send enrollment form and deposit to your college choice. If wait-listed, check with the admissions director about your status.

Ask for Directions

Planning will make a difference. Seek the advice of high school counselors. Ask your financial professional to help evaluate your options, steer you in the right direction, and come up with a workable solution for college funding. You'll save yourself a lot of frustration and avoid that annoying question: "Are we there yet?"

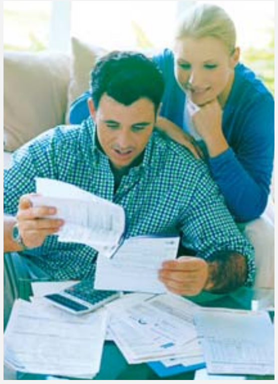
[1]Before investing, carefully consider the investment objectives, risks, charges and expenses, and other important information about a 529 plan. This information can be found in the official statement. Please read it carefully before investing.

FUTURE COST OF COLLEGE (tuition, fees, books, room & board, misc. expenses)

Years Until College	Public (4-Year)	Private (4-Year)
2	$67,500	$145,500
4	$78,700	$169,700
10	$124,900	$269,300
18	$231,200	$498,400

Source: The College Board's "College Cost Calculator," 8% annual inflation rate.

FINANCIAL RESOURCES



Realistically, most families can't save all they need. Focus on scholarships, grants, and student loans to supplement your savings.

Scholarships—Merit scholarships are offered by a number of states and schools. Scholarship service and community groups, corporations, and foundations offer scholarships. Start exploring at *fastaid.com* or *www.fastweb.com*. While these websites are legitimate, some are not. Avoid scams by checking with college counselors or financial aid directors.

Grants—These are awarded on the basis of need. In 2004, the federal government handed out 5.1 million Pell grants worth an average of $2,466. Private colleges also offer needs-based aid.

Work Study—Needy students are awarded federally funded jobs through their schools. These are usually on campus and require 11 hours per week.

Loans

- PLUS (Parent Loans for Undergraduate Students) is credit-based (not needs-based) low-interest, federally guaranteed loans given to parents of undergraduate students.
- Stafford loans are low-interest, federally guaranteed loans given directly to students but at more favorable rates than PLUS.
- Perkins loans are needs-based loans available through colleges and universities. Funds come from the federal government and the borrower's college, but are repaid to the borrower's college.

Tax Credits

Note: Your modified adjusted income level must be below certain levels.

- Hope Scholarship offers a tax credit of up to $1,500 a year for the first two taxable years your child is in college.
- Lifetime Learning Credit provides a 20% credit on the first $10,000 of qualified expenses.

BEYOND TUITION

The big-ticket items are tuition, books, and room and board. But don't forget clothes, cell phone, laptop, dorm furnishings, movies, concerts, snacks, haircuts, parents' visits, and travel home. The average cost for freshman year, according to 2006 data from U.S. News and World Report, was around $5,000.

DON'T OVERLOOK LIFE INSURANCE

With all the college savings strategies available today, don't overlook an obvious choice — life insurance. It can help fund your child's education in two ways.

First, premium payments provide a death benefit. For most parents, it will take years of hard work and sacrifice to be able to send your child to college. Don't risk all that hard work and your child's opportunity for a degree by failing to plan in case you were to die prematurely. The cost for a life insurance death benefit may be well worth this added protection.

Second, life insurance can help you save money over time by accumulating cash value within the policy. This can be used tax-free during your lifetime through withdrawals and/or policy loans to pay for college expenses.* Different policies may have charges for withdrawals, loans, and administrative expenses.

The cash value of a life insurance policy has no restrictions on how it can be used. So, if your child does not go to college, the value in your policy can be shifted to another financial obligation, such as adding to your retirement or letting it accumulate to grow your death benefit protection.

Under the federal financial aid formula, cash value life insurance policies are not taken into account when considering parental assets. Thus the amount of federal financial aid your child is eligible for is not reduced because you have life insurance containing cash value.

Before investing in any college savings instrument, educate yourself about the different options available, including life insurance. Contact your trusted financial professional to help select a good program for you.

**Withdrawals up to policy basis are tax-free. Withdrawals and unpaid loans will reduce the available death benefit.*

Wise Words

Before buying life insurance, learn as much as you can about the insurance company offering the policy. Independent ratings agencies provide information about the company's financial stability, history, and fiscal management.