PERSONAL CAPITAL®

EDUCATION PLANNING GUIDE

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There's no doubt about it – college is expensive.

The cost of college tuition has risen over the past few decades, with private college tuition rising faster than inflation. Today's parents are learning to save early and often to cover the rising costs of education, which are likely to continue increasing.

This presents a challenge, however. How do you save for your children's education while also planning for your own retirement? How much can you afford to contribute to your kids' future without sacrificing your own long-term plans? With student loans, financial aid, and 529s to consider, college planning is tricky to navigate — at least without the proper assistance and knowledge.

Whether you are planning a family or already have one, it's a great time to address these crucial financial planning questions. The Personal Capital Education Planning Guide will help you navigate the path to achieving these major long-term financial goals. This guide will focus mainly on financing higher education for your children; however, many of these lessons can also be applied to other educational needs.

? Questions to Ask Yourself

As you begin to plan for your children's education, it's important to ask yourself some basic questions. These will help guide you when determining how much you need to save.

> What kind of colleges are you looking at?

a. Private vs. public
b. In-state vs. out-of-state

> How do you expect to pay?

c. Cover all of it
d. Loans/scholarships
e. Mixture of both

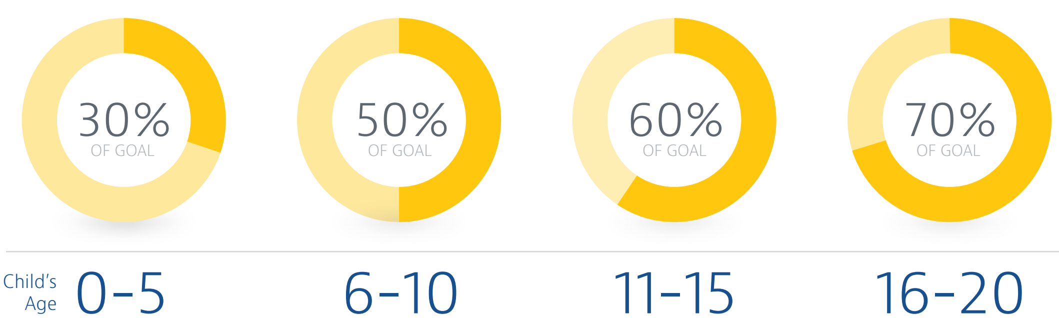
PERSONAL CAPITAL | Smart Strategy #1

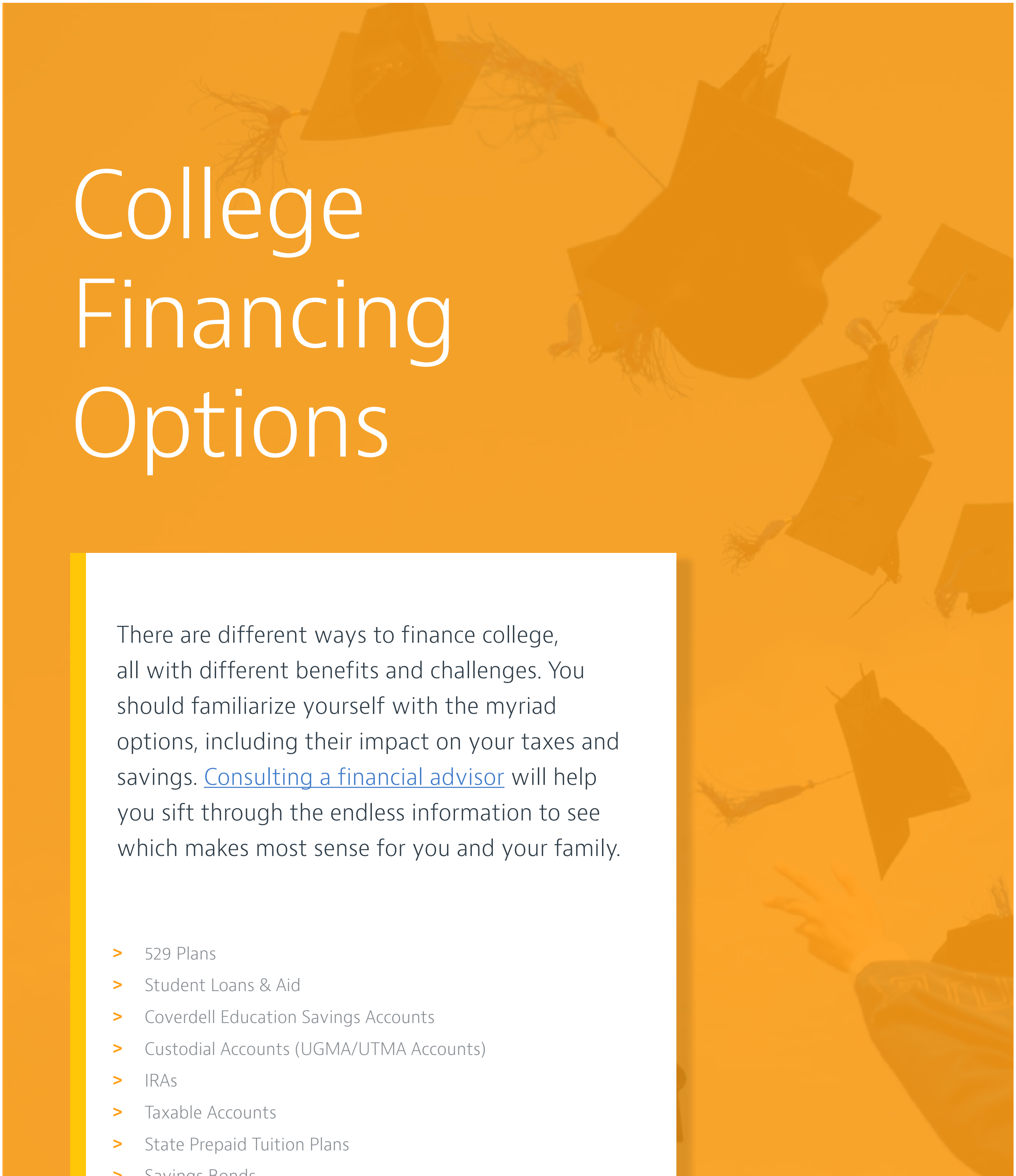
How Much Should You Save For College Education?

Not sure what number to put in your plan? A good “average” tuition cost to aim for is $25,000 per year for public schools, and $40,000 per year for private schools. If you have a baby or toddler and you’re saving with a 529, shoot for funding roughly 30% of the expected cost upfront, if you have the funds available. A good starting amount is $28,000, since that will keep you under the annual gifting limit (gifting limits are $14,000 per person per recipient and $28,000 for a married couple per recipient in 2017). You have the option to add more without a penalty, but it complicates your tax situation. If you don’t have $28,000 upfront, start by contributing $250 per month to a 529 account (assuming you have a young child who will be attending a public university).

As your baby or toddler grows into a young child, aim to have 50-70% of the expected cost of the education or your funding goal — continue increasing that amount as your child nears college.

TARGETED AMOUNT OF EDUCATION GOALS FUNDED BY AGE





College Financing Options

There are different ways to finance college, all with different benefits and challenges. You should familiarize yourself with the myriad options, including their impact on your taxes and savings. Consulting a financial advisor will help you sift through the endless information to see which makes most sense for you and your family.

- 529 Plans
- Student Loans & Aid
- Coverdell Education Savings Accounts
- Custodial Accounts (UGMA/UTMA Accounts)
- IRAs
- Taxable Accounts
- State Prepaid Tuition Plans
- Savings Bonds

529 Plans

A 529 plan is generally a state-sponsored plan used for college education savings. These types of plans are one of the most popular ways families save for college. 529 plans benefit over a traditional taxable account because their investment gains grow and can be withdrawn tax-free, similar to the Roth IRA (savings into the plan are also after-tax). Many states also offer additional tax benefits to local residents who invest in their respective state's plan. While there is no limit to annual contributions, there are lifetime limits that vary by state, which are typically $200,000 or more.

PERSONAL CAPITAL STRATEGY

529s vs. Prepaid Plans

529 plans generally offer more flexibility and growth potential for most families. However, for some folks, prepaid plans can make more sense – for instance, if you are more risk-averse and don't like the idea of the principal fluctuating over time, like that of a 529. Also, many prepaid plans offer a refund if your child does not attend college, while a 529 can assess certain taxes and penalties if the funds are not used for college expenses. Still, prepaid plans generally do not give you growth potential and flexibility in use of funds as 529 plans do.

Contact your advisor to see which makes sense for you.

529 PLAN SPECIFICS

The most important 529 plan factors are investment options, fees and any potential state tax benefit. Options refer to the underlying investments (e.g. mutual funds) available for purchase, as well as the method by which they can be purchased. Most states offer two investment methods: static and age-based. Static means purchasing funds individually. This shifts responsibility for monitoring the portfolio's allocation to the investor. Age-based refers to pre-set investment tracks where the allocation changes automatically (usually to a more conservative portfolio) as the beneficiary ages and nears college.

529 Plan **PROS**

- 529 plan account and investment options are plentiful, and the opportunity for low fees and index-style management can be attractive to many investors. Because they allow much larger contributions, they often overshadow other vehicles, like Coverdell Education Savings Accounts (ESAs). You can also use the funds for qualified expenses including tuition, fees, books, supplies, and educational equipment. Also, if your child receives a scholarship, you can withdraw the scholarship amount from the 529 penalty-free and move the money to another beneficiary.

529 Plan **CONS**

- While you can remove money from your 529 plan account to use for non-education expenses, you'll incur a heavy penalty. Besides the penalty (which can be up to 10% on earnings), you will also pay ordinary federal income tax and applicable state taxes if you received a deduction on your contributions.

529 PLAN FEES

Fees vary significantly by plan and tend to cover enrollment applications, account maintenance, program management, and the expenses of underlying investments. Total annual fees can range from 0.13% for the lowest-cost plans to 1.85% for the highest. Some 529 plans are only sold through brokers, which typically carry higher fees relative to those available for direct purchase.

529 PLAN TAX CONSIDERATIONS

Tax benefits on 529 plans vary by state. Some states offer a tax credit, while most others offer an annual deduction on taxable income. There are also some states that offer no tax benefits to local residents. In these cases, residents should consider plans based on their investment options. While a tax deduction looks attractive when thinking about your state's plan, there are other items to consider, such as fees and performance. In some cases, the better investment performance of another state's plan can supersede the benefits of a tax deduction. A financial advisor can help you determine which plan might work best for your circumstances.

Savings in a 529 plan grow tax deferred and, if used for qualified higher education expenses, can be removed tax free. College savings are obviously important, but even if you're confident your child will attend college, you should probably max out any retirement account options – such as a 401k or IRA – before you fund a 529 plan. The tax deduction and long-term deferred growth of a retirement account tends to outweigh the shorter time period for the 529.

PERSONAL CAPITAL STRATEGY

Changing Graduation Year

When you invest in a 529 plan, you'll probably be asked what year your child (or the person you're opening the account for) will graduate from high school. That information is used so the mix of investments will be appropriate for your time frame. There may be times, however, when you want your 529 plan invested more aggressively or conservatively. In that case, you might want to invest your 529 plan based on a year further in the future (for a more aggressive position) than your child's actual graduation year. Just remember to review your investments often to make sure the mix is still appropriate for your circumstances. You can use Personal Capital's free tools to track all of your financial accounts, including a 529 plan.

WHEN DOES A 529 PLAN MAKE SENSE?

529 plans are primarily geared toward families who are fairly certain the beneficiary will attend college. Most plans offer valuable tax benefits and can be an attractive option for more "hands-off" investors (assuming an aged-based option is available). But there are tradeoffs: If fees are high, the tax benefits could fade relative to purchasing low-cost ETFs elsewhere. Investors looking for greater flexibility over investment choices might opt for a different plan.

If you live in a state that provides a 529 deduction, choosing a plan in your state likely makes the most sense. If not, costs matter. Saving for College has some handy resources to help you review your state tax benefits.

PERSONAL CAPITAL STRATEGY

Overfunding or Not Using a 529 Plan

If you are concerned about overfunding or not using a 529 plan, we generally recommend targeting a 529 plan for about 70% of the total expected college costs. Then you can transition to a taxable savings account until you reach the target savings amount.

Still concerned about overfunding? You may want to try funding only your child's first two years of college. Then, you can use a Roth IRA or taxable account – or your child can take out a loan – to fund the final years.

Remember, many children get scholarships, decide to go to community college for at least one year or decide to forego college altogether. If your child receives a scholarship, you can pull the equal amount out of a 529 without penalty. If one of your children does not attend college, money can be transferred to another qualified beneficiary to be used for education. Qualified beneficiaries include immediate family members, relatives of your immediate family (e.g. nieces, uncles, etc.), in-laws, and first cousins.

Keep in mind, a 10% penalty and ordinary income tax are charged on investment gains for non-qualified distributions. There is no penalty or taxes on principal – you would only pay a penalty on gains that you have deferred for a long period of time.

Student Loans & Aid

While often burdensome, student loans have several long-term benefits and can fill big financial gaps. Loans shift the burden of repayment to your child, which helps them build credit as they pay it back. And they have the potential to protect your retirement, which should always take priority over saving for college. Remember: your children can always borrow for college; you can't for your retirement.

FEDERAL AID

Federal Student Aid (FSA) – part of the Department of Education – is the largest source of financial aid in the United States, offering loans, grants and work study funds. Federals loans have flexible repayment options and universal, competitive rates. They also offer deferments and other features that most other loans don't. Federal grants can be merit-based, need-based or student-based, and do not need to be repaid. Common ones include Pell grants, Federal Supplemental Education Opportunity Grants (FSEOG), and Teacher Education Assistance for College and Higher Education (TEACH) grants.

SUBSIDIZED VS. UNSUBSIDIZED LOANS

The federal government pays the interest on a subsidized student loan while the student is in college or if the loan is deferred. Unsubsidized loans accrue interest when the loan begins. There are borrowing maximums, depending on the year in school, including for graduate students. Interest rates and fees vary.

ELIGIBILITY FACTORS

Many factors determine your aid eligibility. While your income (and family income, if you're a dependent) is one driving force, the cost of the school you're attending, your year in school and your enrollment status also matter. That's why it's important to lower your expected family contribution. If you're on the fence for financial aid at your college, how you save money could be the difference between receiving aid and paying out-of-pocket for your entire college experience.

Free Application for Federal Student Aid (FAFSA)

All students filing for federal financial aid must file the Free Application for Federal Student Aid (FAFSA). A common FAFSA misperception is that it's just for low-income families who receive financial aid; however, anyone hoping to use low-cost student loans for college will need to apply. Regardless of your income stream, if you're enrolled at least half-time in a school participating in the Direct Loan Program (most schools in the United States), you're eligible for an unsubsidized Stafford loan – and maybe more. The FAFSA process can open the door to many grants and loans.

STATE AID

State governments also offer grants, scholarships, work-study funds, state loans and tuition assistance. According to the National Association of Student Financial Aid Administrators (NASFAA), almost every state education agency has at least one grant or scholarship available to residents. While these student aid programs generally only apply to state residents attending an in-state school, it's not always the case. NASFAA's website can help you figure out which programs are available in your state and their eligibility requirements. And don't forget, there is a lot of financial aid also available through nonprofits as well.

INSTITUTIONAL AID

Some colleges and universities provide aid to their students through scholarships, grants, and work-study programs via institutional aid programs that come from their own resources. Usually these applications request much more thorough and personal information from applicants, including any special circumstances that may not have been explained on a FAFSA application. Each institution is different in what they offer, so it makes sense to evaluate these options to see what is available.

PRIVATE LOANS

Private loans can be a good alternative to federal loans, especially if you need to borrow a higher amount. However, there are a quite a few drawbacks. Private loans tend to be more expensive, averaging as much as 9% to 12% annually (for comparison, top credit unions may offer members an average private student loan rate of 4.8%). These loans have interest rates and may require a cosigner and carry additional fees.

Coverdell Education Savings Accounts

A Coverdell Education Savings Account (ESA) is a trust or custodial account whose sole purpose is to pay for qualified education expenses for beneficiaries under the age of 18 (or special needs beneficiaries). Formerly known as a low-contribution education IRA, a Coverdell ESA may be used for private K-12 education expenses or qualifying college expenses (tuition and fees, books, supplies, equipment, room and board). While there is no limit on the number of accounts your child may have, there are limits to total contributions. Most traditional mutual funds, exchange traded funds, stocks, bonds or CDs may be used inside of a Coverdell ESA.

Coverdell ESA **PROS**

- They can be used for any qualified higher education expense or any qualified elementary/secondary education expense
- If qualified, they offer tax-deferred growth and tax-free withdrawals
- There are nearly unlimited investment options

Coverdell ESA **CONS**

- They have low contribution limits ($2,000 in 2017)
- There are income restrictions on contributions (in 2017, your modified adjusted gross income must be less than $110,000 or $220,000 if filing a joint return)
- You can’t contribute after your child reaches the age of 18, unless your child is a special-needs child
- You may end up paying large fees if you work with a commission-based advisor to choose your funds
- Use it or lose it: the account must be fully depleted when your child reaches 30

COVERDELL ESA TAX CONSIDERATIONS

Coverdell ESA enjoys tax benefits similar to a Roth IRA. Money grows tax deferred and may be removed tax free for qualifying expenses, although contributions themselves aren’t deductible. According to the IRS, if an account’s distributions aren’t more than your child’s qualified education expenses at an eligible educational institution (in one year), then your child won’t owe tax on the distributions.

For more information on Coverdell ESAs, please visit the IRS website.

Custodial Accounts (UGMA/UTMA Accounts)

Custodial accounts – aka Uniform Gift to Minors Act (UGMA) or Uniform Transfer to Minors Act (UTMA) accounts – are another way to save for college expenses. An adult, such as a parent or grandparent, is the custodian for this type of account until your child reaches the age of majority, usually 18. This means the custodian makes all investment decisions for the account. UGMA accounts can only hold money and securities while UTMA accounts can hold other types of property.

As with many of these methods, custodial accounts have distinct benefits and drawbacks.

Custodial Account **PROS**

- Funds can be used for any purpose that benefits the minor, which is more flexible than a 529
- Can help teach your children about financial responsibility
- No contribution limits (gift and generation skipping taxes aside)

Custodial Account **CONS**

- Anything transferred to a UTMA/ UGMA is considered an irrevocable gift to the minor. This means anything in these accounts will be considered the child's assets for financial aid. Child assets are more heavily weighted than parental assets when calculating the maximum financial aid available for college, impacting the potential dollar amount received if financial aid is needed.
- No tax-deferred growth or tax-free withdrawals; if you start saving while your child is young, this could add up to a large tax bill.
- Minor maintains control of assets once they reach the age of majority in their state. They can use the funds for anything they choose, which may or may not be college related.

Education Tax Credits

There are tax credits you may be able to take advantage of when it comes to education. Remember, there's no double dipping – you can only choose one type of education tax credit per year. These credits phase out based on your level of income – check with the IRS for the latest information.

AMERICAN OPPORTUNITY TAX CREDIT

Annual Tax Credit of up to:

$2,500
/eligible student

If you or your dependent(s) are working toward a college degree, you can receive an annual tax credit of up to $2,500 per eligible student for the first four years of higher education through the American Opportunity Tax Credit.

ELIGIBILITY REQUIREMENTS

- Be pursuing a degree or other recognized education credential
- Be enrolled at least half time for at least one academic period beginning in the tax year
- Not have finished the first four years of higher education at the beginning of the tax year
- Not have claimed the AOTC or the former Hope credit for more than four tax years
- Not have a felony drug conviction at the end of the tax year

LIFETIME LEARNING CREDIT

Annual Tax Credit of up to:

$2,000
/tax return

Even if you are simply taking a class or two to improve job skills, you may qualify for a credit of up to $2,000 per tax return through the Lifetime Learning Credit. There is no limit on the number of years you can claim the Lifetime Learning Credit.

ELIGIBILITY REQUIREMENTS

- You pay qualified education expenses of higher education.
- You pay the education expenses for an eligible student.
- The eligible student is either yourself, your spouse, or a dependent for whom you claim an exemption on your tax return.

IRAs

IRAs offer greater flexibility when saving for college —you maintain full control over the underlying investments. But this also means they require greater responsibility and may not be ideal for "hands off" investors. You would be in charge of monitoring and maintaining the portfolio allocation over time.

TRADITIONAL IRAS

These accounts are tax deferred, so money is deposited pre tax, and taxes are not due on principal or earnings until withdrawal. While distribution is taxed at your ordinary income rate, you can withdraw money penalty-free at any age for qualified educational expenses, such as tuition, books, fees and supplies.

ROTH IRAS

These accounts are tax-exempt, which means money is contributed after tax, but earnings and dividends accrue tax free (though they are subject to early withdrawal restrictions). A Roth IRA may be beneficial if you're unsure your child will attend college or if you want to maintain monetary flexibility. This makes a Roth IRA a great investment option if you're willing and/or capable of sacrificing its use as a retirement vehicle. It is important to prioritize your own retirement over paying for college - you can get a student loan for college if needed, but there's no loan for your retirement.

Keep in mind, there are investment and income limits to a Roth IRA. If you're eligible for a Roth IRA, contribute to that account before a 529 plan.

Taxable Accounts

Like IRAs, taxable accounts offer flexibility because you control the investments. Generally, taxable accounts include individual, joint, trusts, and the aforementioned custodial accounts. Any gains realized in these accounts will be taxed in the year they were earned.

State Prepaid Tuition Plans

Some states allow prepaid tuition plans that sometimes – but not always – let you lock in future tuition rates at in-state public colleges at current prices. The advantage is that you lock in tuition at today's prices, which can be a huge benefit as tuitions continue to rise, even for state schools. On the other hand, you usually need to pay the current costs of tuition upfront, and since it must be used for in-state public colleges, your child is not allowed much flexibility to choose otherwise. You can lose any potential growth if your child chooses another school or receives a scholarship at a non-applicable school.

Savings Bonds

You may be able to exclude all or a portion of the interest earned on the redemption of eligible Series EE and Series I bonds from your gross income. In order to qualify for the Education Savings Bond Program, you must be at least 24 years old before the bond's issue date, and eligible bonds must be issued after 1989. You – or your spouse or dependents – must incur tuition and other education-related expenses at qualifying post-secondary educational institutions (i.e. they meet the standards for federal assistance) during the same tax year you redeem the bonds. When you use bonds for your child's education, he or she can be listed as a beneficiary, but not as owner or co-owner of the bond, and there are income limitations to qualifying.

CASE STUDY Funding College While Saving for Retirement

THE SITUATION

Sam and Bailey are married with three young children. The couple, who are both doctors in their mid-30s live in Colorado (one of the handful of states that offers a generous unlimited state income tax deduction for 529 contributions). Because they are successful in their fields and spend frugally, Sam and Bailey have a significant ability to save each year.

THE CHALLENGE

The couple wants to provide four years of college for each of their three children, with expected costs of $40,000 per child, per year – totaling $480,000. They know the importance of saving for retirement, and need to figure out how to put nearly half a million dollars to support their education goals without sacrificing their future retirement.

THE SOLUTION

After reviewing Sam and Bailey's financial goals, their advisor found their local 529 plan offered an income tax deduction. He recommended they use the in-state plan to reap the tax benefits since plan assets grow tax free. In addition, because of the couple's high savings rate, their advisor discussed front loading the plan (vs. saving on an annualized basis), which gave the family more potential to achieve longer-term growth in those tax-advantaged accounts. This upfront lump sum gave them the best chance at growth over the longest period of time, providing peace of mind about college funding.

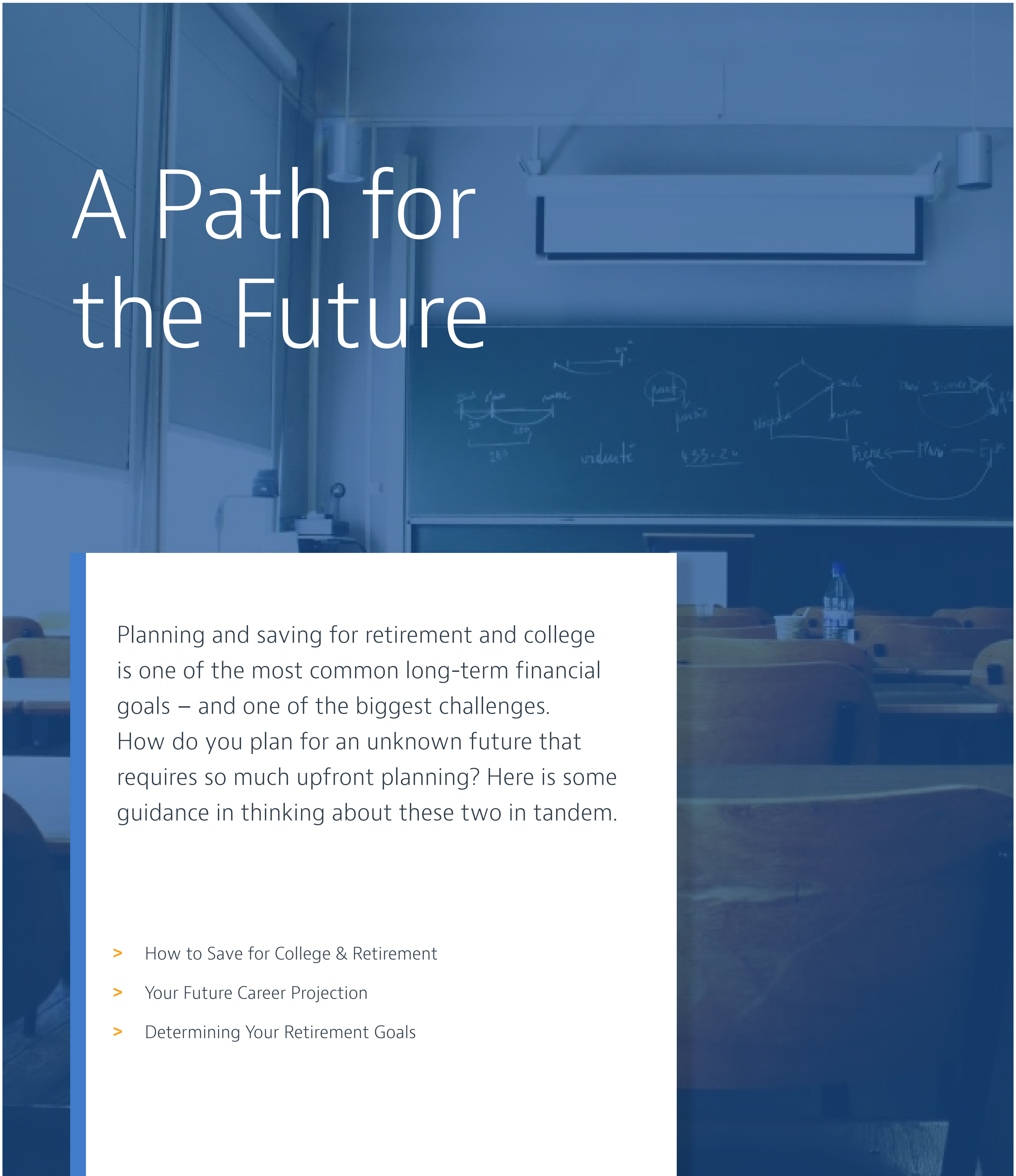
One balance they were careful to strike was the percentage of expected costs to cover. While fully funding the youngest child left more time for the account to grow, it also increased the danger of overfunding the account (fully funding any 529 plan risks leaving unused funds in the account). Their advisor also wanted them to consider the impact of front loading the 529 plans in case one or more of their children doesn't end up attending college.

In the end, Sam and Bailey felt there was a strong chance their children would attend college, and they could absorb the cost of funding a 529 plan without sacrificing their own retirement. They decided to fund 75% of the expected costs, with the remainder covered out of pocket.

THE RESULTS

Sam and Bailey funded each of three children's accounts with enough money to expect – according to all the assumptions they made with their financial advisor – the appropriate amount of growth. When their children are 18, the majority of their educational costs will be covered by the 529 plan. Sam and Bailey adhered to the adage that borrowing for college is always an option, but borrowing for retirement is not.

This case study is fictional and does not depict any actual person or event.



A Path for the Future

Planning and saving for retirement and college is one of the most common long-term financial goals – and one of the biggest challenges. How do you plan for an unknown future that requires so much upfront planning? Here is some guidance in thinking about these two in tandem.

- How to Save for College & Retirement
- Your Future Career Projection
- Determining Your Retirement Goals

How to Save for College & Retirement

Saving for your children's education is obviously important. But, if you're confident your child will attend college, max out any retirement account options – such as a 401k (especially if your company matches) or IRA – before you fund a 529 or any other education-specific account. The tax deduction and long deferred growth of retirement accounts tends to outweigh the tax-free growth in your 529 for a shorter period of time. If you're eligible for a Roth IRA, you should also contribute to that account before a 529. The principal can be pulled anytime, including for education expenses.

As always, you should not sacrifice your retirement for your children's education. You can always borrow for college; you can't borrow for your retirement. The interest rates for federal student loans – the types of loans your children might take out if they need to – are usually less than what you can make by putting your money in retirement investments.

?

When Should I Start Saving for College?

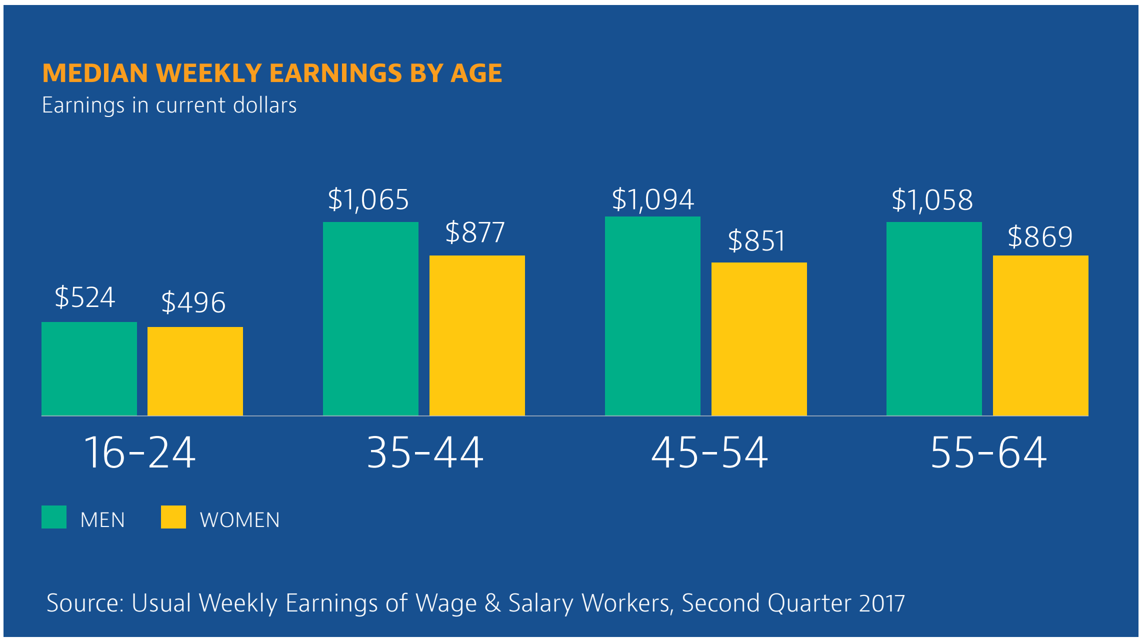
As with anything related to investing, starting early is always better because it gives funds more time to grow. Starting right away may not be possible for some parents. As strong as your desire to provide for your child's future might be, there are some basic things to have in place before you begin saving for college.

- Wait to start saving for college until you have other priorities, such as an emergency fund insurance and your own retirement savings on track.
- Ensure your personal needs are met first – providing for a child's college education at the expense of your own financial well-being could mean you end up being a financial burden to your child in your retirement years.
- After covering these needs, start thinking about saving for college. This can be as little or as much as you want – don't let the amount hold you back.

Your Future Career Projection

Income varies over a career, and there are different strategies and optimal times to save for retirement vs. education. Understanding your projected career and salary trajectory helps in knowing when and how to save. After all, the salary you earned at 24 is likely not the same two decades later.

The Bureau of Labor Statistics reported that median weekly earnings were highest for men age 35 to 64, peaking between ages 45 to 54. For women, usual weekly earnings were also highest for those aged 35 to 64, peaking between ages 35 and 44.



Men also tend to earn more than women at every single age group. When looking at different ways to pay for your child's education, keep in mind that you will most likely earn more later in life. So as your child grows, so will your salary. This may be important when thinking about planning for the entire family.

Determining Your Retirement Goals

Much of this is predicated on how you envision your retirement lifestyle. After all, how do you know how much you can put toward your child's future if you don't know how much you need for your own?

Here are some important steps to understand what kind of retirement you want:

Pick a retirement date - Do you love your work? You might consider working longer. Is stress getting in the way of enjoying life? You might push this date earlier. Consider whether paying for your child's education will affect that timing.

Track your budget - If you don't track your expenses, now's the time to start. Get a realistic understanding of what you spend every month. A general rule of thumb: in retirement you will need approximately 80% of your current income to cover your usual living expenses.

Know your cash flow - Calculate what will come in and what will go out each month. Find out about Social Security and pensions – when and how much they will pay.

See the big picture - Look at all your investment accounts together. Understand exactly how much you have, both in tax-advantaged and taxable investment accounts. This will help you develop financial goals, measure progress over time, and stay disciplined.

Don't be overwhelmed - There is a huge amount of information on college, finance, and retirement out there. Avail yourself of what interests you, but don't let it overwhelm you to the point that you act rashly – or don't act at all.

For more tips on retirement, read our 65 Ways to Retire Smart guide.

The smart way to track & manage your financial life.

Personal Capital combines award-winning online financial tools that provide unprecedented transparency into your finances with personal attention from registered financial advisors. The result is real time financial visibility and management for 1.5 million registered users. The firm manages more than $5 billion in assets on behalf of its clients and tracks $350 billion in assets for registered users.

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