COLLEGE CASH PRO / SERVICE OF CLEAR VIEW WEALTH ADVISORS, LLC

College Planning Report

PREPARED FOR

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College Cash Pro / service of Clear View Wealth Advisors, LLC - Solutions Plan

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How to use this report to help save ON and not just for college costs:

1. **Review the School Information** that directly impacts costs - including cost of attendance, graduation rates etc. The four-year estimated "sticker price" for University of California: Davis is $145,803 - but this is NOT necessarily what your cost will be.
2. **Do you qualify for financial aid?** Need-based financial aid can substantially reduce family out-of-pocket college costs.
3. **See how the school determines your financial aid eligibility** and determines how much you'll have to contribute to the annual costs.
4. **Merit-based scholarships at University of California: Davis**. School based merit scholarships can significantly reduce college costs.
5. **Strategies for increasing financial aid eligibility at University of California: Davis**. Learn strategies that may increase financial aid eligibility at University of California: Davis.
6. **What are the best ways to save and pay for college costs?** Analyze and assess the options. How you save for and pay college costs affects the real cost of college.

I. Important Terms You Need to Know to Become an Informed Buyer of a College Education

COST OF ATTENDANCE (COA) at a school is determined for each college by totaling the costs for tuition and fees, room and board, books and supplies, personal expenses and travel.

The **EFC METHODOLOGY** indicates whether the school in question uses the Federal Methodology (requires the FAFSA) or Institutional Methodology (requires PROFILE) to determine your financial need.

ESTIMATED EFC is your Expected Family Contribution amount (EFC), using either FM or IM, depending on what the school requires. Both the initial (based on data provided on data form) and adjusted EFC (after applying EFC reduction strategies) are shown.

The **AVERAGE NEED MET** is the amount of your total need that the school is most likely to meet. Data is based on incoming freshman the previous year.

FINANCIAL AID ELIGIBILITY is calculated by subtracting the EFC from the COA (which is the financial need amount) and multiplying this by the **AVERAGE NEED MET** percentage at the school.

UNMET NEED is the amount of financial need that the school will not meet. For example if the school's COA is $20,000, your EFC $10,000 and the average need met is $5,000 (50%), then there is an additional $5,000 needed to cover the COA. You are responsible for this amount.

TOTAL FAMILY CONTRIBUTION is equal to the EFC plus any unmet need.

GIFT AID % is the percentage of the need that the school will meet in the form of scholarships, grants etc. This is money that will not have to be paid back to the school. This percentage is based on incoming freshman the previous year.

ESTIMATED GIFT AID is determined by applying the gift aid % to the financial aid eligibility total. This is a forecast of the amount that you may receive in the form of Gift Aid (grants and scholarships).

SELF HELP % is the amount of need that the school will meet in the form of loans and work-study. This percentage is based on incoming freshman the previous year.

ESTIMATED SELF-HELP is determined by applying the self-help % to the financial aid eligibility total. This is a forecast of the amount that you may receive in the form of Self-Help (loans and work-study).

II. How Much Will University of California: Davis Cost for SAMPLE?

According to the latest information available, if SAMPLE starts college in 1 year(s), University of California: Davis will have a four-year projected cost of $145,803 using a 3% annual inflation rate.

University of California: Davis uses the Federal Methodology to determine your Expected Family Contribution (EFC). Your EFC is what your family is expected to contribute toward the annual cost of attendance, before qualifying for any need-based financial aid. Your current EFC is calculated to be $13,013. Implementing the strategies in this plan may help to lower your EFC amount to $11,900.

ESTIMATED COA
$33,836

4-YEAR/6-YEAR GRADUATION RATE
51% / 85%

EFC METHOD USED BY SCHOOL
Federal Methodology

COST AND FINANCIAL AID SUMMARY FOR UNIVERSITY OF CALIFORNIA: DAVIS

ESTIMATED EFC
Before: $13,013 | **After: $11,900**

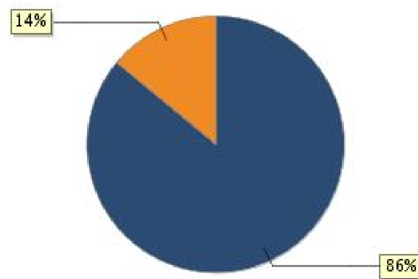
FINANCIAL AID ELIGIBILITY
Before: $17,074 | **After: $17,987**

ESTIMATED GIFT AID
Before: $14,684 | **After: $15,469**

ESTIMATED SELF HELP
Before: $2,390 | **After: $2,518**

UNMET NEED
Before: $3,748 | **After: $3,948**

TOTAL FAMILY CONTRIBUTION
Before: $16,761 | **After: $15,848**

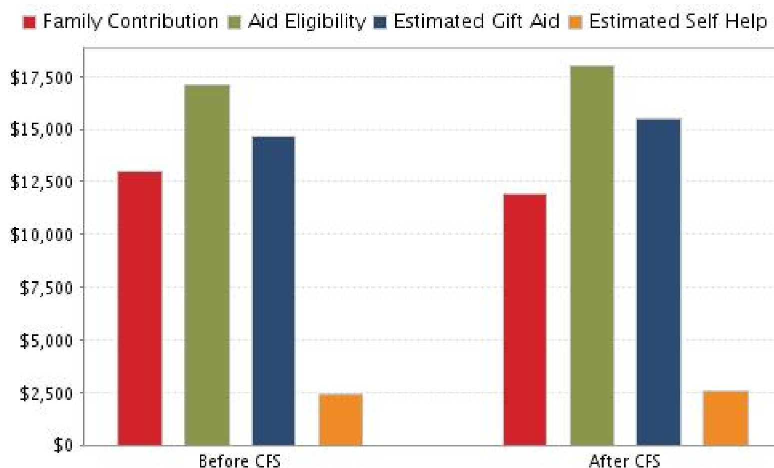


AVERAGE NEED MET = 82%

Average Gift Aid % Average Self Help %

By implementing strategies that can reduce your EFC, you may **increase your financial aid eligibility and reduce your out-of-pocket college costs.** On average, 82% of financial need is met at University of California: Davis. Of the percentage of need met, 86% is met with grants and scholarships (referred to as Gift Aid because it doesn't have to be paid back), while 14% is loans/work study (referred to as Self Help). Your current estimated financial aid eligibility is $17,074 ($14,684 from Gift Aid and $2,390 from Self Help).

TIP: You may be able to increase your financial aid eligibility to $17,987 ($15,469 from Gift Aid and $2,518 from Self Help) through the implementation of financial aid enhancing planning strategies.



III. Merit Scholarships for SAMPLE at University of California: Davis

COLLEGE SCHOLARSHIPS

Based on the student's academic profile: SAT/ACT scores, GPA, Class Rank, etc., following are merit money opportunities at University of California: Davis that the student may qualify for. These scholarship/grants do not have to be paid back, are based on the merit of the student and can help to significantly reduce the family's out-of-pocket college costs.

TIP: How to use the information in this section:

1. Check the scholarship deadlines so that you don't miss them!
2. Compare student test scores versus scholarship requirements and determine if test prep course would be worth it
3. Check the scholarship requirements to learn what may be required beyond the admissions application

UNIVERSITY OF CALIFORNIA DAVIS - REGENTS SCHOLARSHIP

Eligible Based On Supplied Information: **No**

Amount: **$7,500.00**

Min GPA: **3.8**

Min SAT: **1260**

Min ACT: **26**

Min Class Rank: **not available**

Number Available: **Limited**

Essay Required: **No**

Interview Required: **No**

Audition Required: **No**

Specified Majors: **all**

Scholarship Deadline: **2021-01-04**

For Minority: **No**

Renewable: **Yes**

State of Residence: **N/A**

Notes To Renew: **Maintain 3.25 GPA. Enrolled full-time.**

Notes: **Qualified students with demonstrated financial need may receive an additional stipend designed to supplement the student's own resources. See website for additional information.**

Scholarship Link: **https://www.ucdavis.edu/cost/s**

UNIVERSITY OF CALIFORNIA DAVIS - ALUMNI SCHOLARSHIP

ELIGIBLE BASED ON SUPPLIED INFORMATION: Yes

Amount: **$2,500.00**

Min GPA: **3.5**

Min SAT: **850**

Min ACT: **16**

Min Class Rank: **not available**

Number Available: **Limited**

Essay Required: **No**

Interview Required: **Yes**

Audition Required: **No**

Specified Majors: **all**

Scholarship Deadline: **2021-05-01**

For Minority: **No**

Renewable: **Yes**

State of Residence: **N/A**

Notes To Renew: **Maintain good academic standing. Enrolled full-time**

Notes: **Award ranges $1,000-$4000. See website for additional information.**

Scholarship Link: **https://www.ucdavis.edu/cost/s**

UNIVERSITY OF CALIFORNIA DAVIS - CALIFORNIA'S MIDDLE CLASS SCHOLARSHIP

ELIGIBLE BASED ON SUPPLIED INFORMATION: Yes

Amount: **$2,883.00**

Min GPA: **2.5**

Min SAT: **850**

Min ACT: **16**

Min Class Rank: **not available**

Number Available: **Limited**

Essay Required: **No**

Interview Required: **No**

Audition Required: **No**

Specified Majors: **all**

Scholarship Deadline: **2021-03-02**

For Minority: **No**

Renewable: **Yes**

State of Residence: **N/A**

Notes To Renew: **Maintain good academic standing. Enrolled full-time**

Notes: **For undergraduate students with family incomes up to $165,000 and a maximum annual household asset amount of $165,000. See website for additional information.**

Scholarship Link: **http://financialaid.ucdavis.edu/ class-scholarship.html**

UNIVERSITY OF CALIFORNIA DAVIS - BLUE AND GOLD LEADERSHIP SCHOLARSHIP

ELIGIBLE BASED ON SUPPLIED INFORMATION: Yes

Amount: **$5,000.00**

Min GPA: **3.5**

Min SAT: **850**

Min ACT: **16**

Min Class Rank: **not available**

Number Available: **Limited**

Essay Required: **Yes**

Interview Required: **Yes**

Audition Required: **No**

Specified Majors: **all**

Scholarship Deadline: **2021-05-01**

For Minority: **No**

Renewable: **Yes**

State of Residence: **N/A**

Notes To Renew: **Maintain good academic standing. Enrolled full-time**

Notes: **Applicant demonstrates leadership in extracurricular activities, community activities, employment, or personal situations. See website for additional information.**

Scholarship Link: **http://alumni.ucdavis.edu/about us/scholarships**

UNIVERSITY OF CALIFORNIA DAVIS - AGGIE GRANT PLAN

ELIGIBLE BASED ON SUPPLIED INFORMATION: Yes

Amount: **$3,158.00**

Min GPA: **2.5**

Min SAT: **850**

Min ACT: **16**

Min Class Rank: **not available**

Number Available: **Limited**

Essay Required: **No**

Interview Required: **No**

Audition Required: **No**

Specified Majors: **all**

Scholarship Deadline: **2021-03-02**

For Minority: **No**

Renewable: **Yes**

State of Residence: **N/A**

Notes To Renew: **Maintain good academic standing. Enrolled full-time**

Notes: **Your parent's assets (excluding personal residence) are less than $200,000. See website for additional information.**

Scholarship Link: **http://financialaid.ucdavis.edu/ grant.html**

UNIVERSITY OF CALIFORNIA DAVIS - PROVOST'S AWARD

ELIGIBLE BASED ON SUPPLIED INFORMATION: Yes

Amount: **$13,250.00**

Min GPA: **3**

Min SAT: **0**

Min ACT: **0**

Min Class Rank: **not available**

Number Available: **Limited**

Essay Required: **No**

Interview Required: **No**

Audition Required: **No**

Specified Majors: **all**

Scholarship Deadline: **2020-11-30**

For Minority: **No**

Renewable: **Yes**

State of Residence: **N/A**

Notes To Renew: **maintain GPA**

Notes: **For out-of-state students**

Scholarship Link: **https://financialaid.ucdavis.edu**

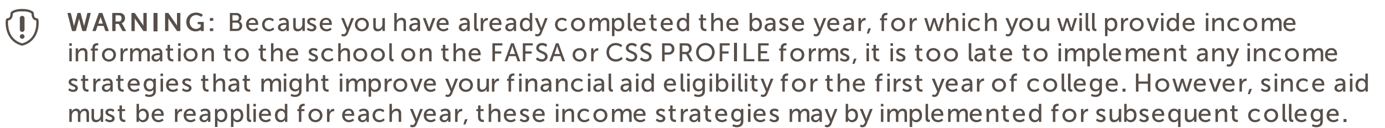
IV. Strategies for Increasing Financial Aid Eligibility at University of California: Davis

In this section, specific strategies are suggested that may be used to decrease your out-of-pocket college costs by decreasing your expected contribution. This may result in financial aid eligibility or increased eligibility (see **Section V**), depending on important factors such as the cost of attendance of the school being considered and the adjusted EFC amount. It is important to note that once the financial aid forms have been completed and submitted, the ability to improve your position is considerably reduced. **Therefore, implementation of the strategies outlined in this section should be completed before the financial aid forms are submitted.** Since the base income year for the family is from Jan. 1 of the student's sophomore year to Dec. 31 of their junior year, the sooner the financial aid strategies are implemented the better. Any asset strategies need to be executed before the financial aid forms are signed.

In addition to the specific strategies, included in this report are **additional cost cutting strategies** that can also have an impact on your college costs and therefore may be useful for advance planning.

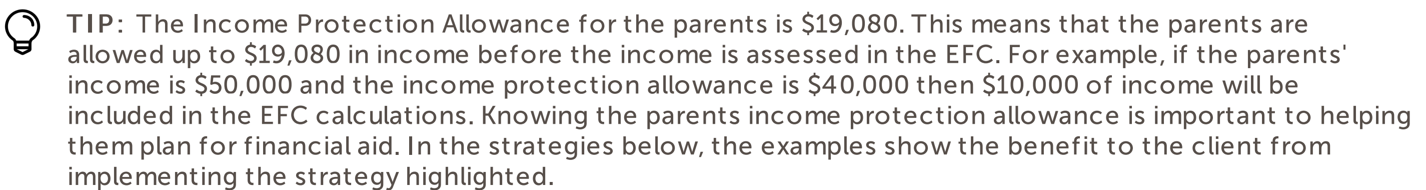
The overall strategy for maximizing your aid eligibility is to leverage the financial aid system in a way that offers the greatest benefits for your family and your student. The following strategies are based on an in-depth understanding of the workings of the financial aid system and how the financial aid formulas will assess the income and assets of the parents and the student in order to determine financial aid eligibility. Each of the strategies offered in this section is intended to provide you with the information needed for you to determine what strategies are available based on your particular situation to help you in your efforts to reduce the cost of college.

INCOME PLANNING STRATEGIES:

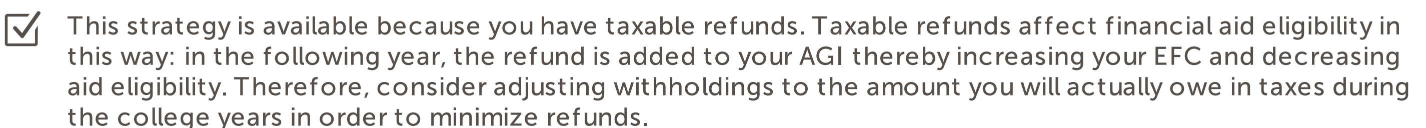


WARNING: Because you have already completed the base year, for which you will provide income information to the school on the FAFSA or CSS PROFILE forms, it is too late to implement any income strategies that might improve your financial aid eligibility for the first year of college. However, since aid must be reapplied for each year, these income strategies may by implemented for subsequent college.

This section contains a list of specific income strategies available to you based on the information you submitted on the dataform. Each of these income related strategies might enhance your financial aid eligibility. Where appropriate, examples are included, showing to what extent implementation of the strategy may enhance your aid eligibility at the school you have selected.



TIP: The Income Protection Allowance for the parents is $19,080. This means that the parents are allowed up to $19,080 in income before the income is assessed in the EFC. For example, if the parents' income is $50,000 and the income protection allowance is $40,000 then $10,000 of income will be included in the EFC calculations. Knowing the parents income protection allowance is important to helping them plan for financial aid. In the strategies below, the examples show the benefit to the client from implementing the strategy highlighted.



This strategy is available because you have taxable refunds. Taxable refunds affect financial aid eligibility in this way: in the following year, the refund is added to your AGI thereby increasing your EFC and decreasing aid eligibility. Therefore, consider adjusting withholdings to the amount you will actually owe in taxes during the college years in order to minimize refunds.

TIP: The implementation of this strategy is included to arrive at the **After CFS** Estimate EFC and Total Family Contribution in the table in Section I.

Your financial aid eligibility may be increased by $774 if you received no taxable refunds.

Implementing this strategy may reduce your EFC by $944.

INCOME PLANNING TIPS:

This section contains a variety of general income related strategies (important tips) that should be considered by all families applying for financial aid since they may enhance financial aid eligibility.

- Consider the viability and ways of concentrating federal income taxes during the base year to lower

the EFC. For example, if you can't make yearly retirement account contributions, consider maximizing contributions before base years and avoiding during base years. This will increase taxes in base years and lower the EFC which may increase financial aid eligibility.

TIP: With respect to cash charitable contributions from income during the base years, the charitable contributions (which are itemized deductions) will lower your taxes which will have the effect of increasing your EFC. They have no effect on AGI since they are itemized deductions. If you are a financial aid candidate consider minimizing charitable contributions from income during the base years. On the other hand, if you are considering gifting assets to charity during the base years, the gifting of the asset will reduce your assessable assets which may decrease your EFC which may increase your financial aid eligibility.

- Avoid taxable and nontaxable withdrawals during the college years. Examples include retirement accounts, annuities, life insurance and pension plans. Otherwise the withdrawal will be assessed as income in the financial aid formulas.
- Avoid the sale of appreciated investments during the base years in order to avoid the income being assessed in the financial aid formulas.
- Consider selling investments that will generate losses during the base years in order to lower income and increase financial aid eligibility.

ASSET PLANNING STRATEGIES

This section contains a list of specific asset strategies available to you based on the information you submitted on the dataform. Each of these asset related strategies might enhance your financial aid eligibility. Where appropriate, examples are included, showing to what extent implementation of the strategy may enhance your aid eligibility at the school you have selected.

TIP: The Asset Protection Allowance for the parents is $2,800. This means that the parents are allowed up to $2,800 in assets before the assets are included in the EFC. For example if the parents' assets are $50,000 and the asset protection allowance is $40,000 then $10,000 of assets will be included in the EFC calculations. Knowing the parents asset protection allowance is important to helping them plan for financial aid. In the strategies below, the examples show the benefit to the client from implementing the strategy highlighted.

This strategy is available because you have equity in your home and the school you are interested in uses the FM method to calculate an EFC. Since schools that require only the FAFSA do not assess the equity in the home, consider paying down the mortgage on the home with assessable assets (anything other than retirement accounts, annuities, or life insurance cash value). If income or gains must be recognized to convert any assessable assets used to reduce the mortgage, do so before the first base-income year (Jan of the student's sophomore year in high school). Otherwise, the income or gains will be included in the EFC

This strategy is available because you have CD's, Money Market funds, or Savings and the school uses the Federal Methodology to determine the EFC. Consider gifting money to non-college family members. These gifts can be used to fund college savings plans. The value of the gifts are then eliminated from the parent assets but used for college planning/savings purposes. The parent may use the gift to fund a cash value life insurance policy for themselves that can be used (by accessing the cash value of the policy) to pay for college costs for other college bound children.

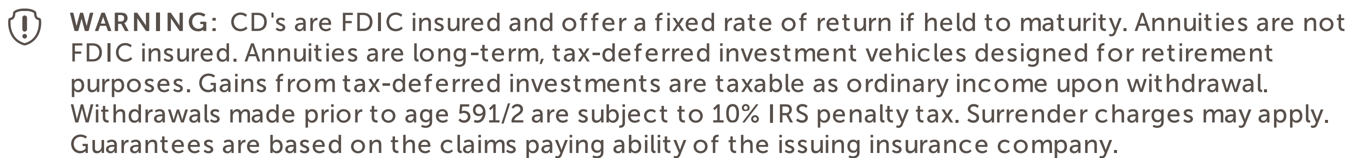
This strategy is available because your employer offers a 401(k) retirement-savings plan. Consider making maximum contributions for retirement to your 401K. Always fund your retirement plan as a first priority. Especially when your employer will match, up to a limit, your contributions. Consider using cash flow from "college allocation" for contribution to company "matching plan" - 401K. Also a contribution to a 401K may reduce AGI under $49999/ year and qualify the family for the simplified EFC (provided all the criteria are met). If needed, you may be able to borrow against the 401K plan for college. This strategy enables you to fully fund your retirement plan and can provide a source of funds for college if needed.

This strategy is available because you have cash in CD's, Money Market funds, or Savings. Consider the negative effect of CD's on financial aid. Not only is any interest income assessed in the EFC formulas, but also the value of the asset as well. Besides, CDs have historically generated low interest rates. Consider re-positioning the CD to a non-assessable asset or the following strategies:

1. Prepay premiums for any life or health insurance policies
2. Pay down consumer debt, pre-pay taxes, or fund retirement accounts
3. Consider accelerating any anticipated future purchases such as a car, furniture, computer, etc.
4. Evaluate the benefits of an annuity versus the CD. Annuities can offer significantly better interest rates and tax deferral. In addition, they may not be assessed in the financial aid formulas.

WARNING: If the school you are considering requires the CSS PROFLE and you are considering using

an annuity as a non-accessible asset, we strongly suggest you engage a financial aid expert for advice and guidance with the completion and filing of the CSS PROFILE.



WARNING: CD's are FDIC insured and offer a fixed rate of return if held to maturity. Annuities are not FDIC insured. Annuities are long-term, tax-deferred investment vehicles designed for retirement purposes. Gains from tax-deferred investments are taxable as ordinary income upon withdrawal. Withdrawals made prior to age 591/2 are subject to 10% IRS penalty tax. Surrender charges may apply. Guarantees are based on the claims paying ability of the issuing insurance company.

TIP: The implementation of this strategy is included to arrive at the **After CFS** Estimate EFC and Total Family Contribution in the table in Section I.

If you move your CD's to a non-assessable asset you may increase your financial aid eligibility by $194.

Implementing this strategy may reduce your EFC by $237.

This strategy is available because you are eligible for a ROTH IRA. For income below $124000 for single tax-filer or $196000 for married filing jointly, consider benefits of a ROTH IRA. The tax deferral and tax-free distributions of a ROTH make it an outstanding retirement savings vehicle. See Section VI - Investment/Funding Options for a detailed description of ROTH IRAs and their use for a financial aid candidate.

WARNING: Restrictions, penalties and taxes may apply unless certain criteria is met, Roth IRA owners must be 59 1/2 or older and have held the IRA for 5 years before tax-free withdrawals are permitted.

ASSET PLANNING TIPS:

This section contains a variety of general asset related strategies (important tips) that should be considered by all families applying for financial aid since they may enhance financial aid eligibility.

- When completing the financial aid forms, the net value of the asset is to mean that taxes on gains (whether realized or not), and any costs associated with the brokering of that investment should be taken into consideration and deducted from the market value of the investment. **For example**:

  $10,000 stock current value
  $5,000 stock basis

  Subtract long term capital gains tax on $5,000 gain or $750.00 (15%)
  Subtract the cost of stock redemption (what your broker charges for selling the investment - say $250)
  True current value of stock $9,000
- Consider the merits of converting liquid assets like cash to non-assessable assets, such as annuities or life insurance, particularly if the assets are earmarked for retirement. Otherwise, some percentage of the value of the asset will be included in your EFC.
- Consider using investment assets to pay down personal debt or pre-pay personal expenses. Simple advanced planning like this can increase financial aid eligibility by using an asset that would be assessed in the financial aid formulas to pay for something that has to be paid for anyway - like expenses or debt reduction.
- Consider the overall effect of shifting income-generating assets/investments to growth assets that generate little or no income. The income generated by the assets/investments may be assessed at a rate of almost 50% by the financial aid formulas. Not only might this affect your financial aid eligibility, but it effectively reduces the "yield" of the investment/asset during the four base years - January of the student's sophomore year in high school through their sophomore year in college.
- Since you can make an IRA contribution from January 1 - April 15 for the previous year, a couple can shelter assets up to $6000 each from the aid formulas by contributing to the previous year and the current year prior to the begining of the base years. In addition, the interest accruing in the IRA will not be counted in the formulas. By maximizing IRA contributions in non-base years, you'll decrease your tax burden during this time and shelter assets from the financial aid formulas. During the base years, Roth IRA contributions will have no affect on AGI or tax and therefore no effect on aid eligibility. The benefit of contributing is the deferred income. For Traditional IRAs, contributions will not lower the AGI because the EFC formulas require that you add back retirement contributions, and the lower tax may slightly decrease financial aid eligibility. Nevertheless, consider maximizing IRA contributions due to the overall long-term benefit on retirement savings.

WARNING: Restrictions, penalties and taxes may apply unless certain criteria is met, Roth IRA owners must be 59 1/2 or older and have held the IRA for 5 years before tax-free withdrawals are permitted.

- Evaluate gifting to shift assets to non-college family members. High growth/highly-appreciated assets are ideal. This transfers the capital gains to their likely lower rate. Given the performance of the stock market over the last few years, consider gifting stock that has yet to recover in value (but is likely to do so) to non-college children. For example: A stock that had a value of $20,000 that is currently valued at $10,000 would be a great candidate particularly if you expect the stock value to return to its previous level. Stocks that have a shown superior performance over the long-term would be good candidates (blue chip stocks).

EDUCATION TAX-CREDIT STRATEGIES

EDUCATION TAX CREDIT STRATEGIES – THE FOLLOWING STRATEGIES CAN BE EMPLOYED TO QUALIFY FOR EDUCATION TAX CREDITS OR INCREASE THE AMOUNT OF THE CREDIT.

Comparison of Tax Benefits		
Cost of Attendance At University of California: Davis -- $33,836		
	American Opportunity Credit	Lifetime Learning Credit
Max Amount and Calculations	$2,500 tax credit per student	$2,000 tax credit per student
Qualified Expenses	Tuition, fees and course materials (textbooks)	Tuition and fees
2021 Income Phaseout Ranges	**Single:** $80,000 - $90,000 **Joint:** $160,000 - $180,000	**Single:** $58,000 - $68,000 **Joint:** $116,000 - $136,000
Do you Qualify?	Yes	No
Estimated Tax Savings	$1,694	$0

- This strategy is available because you are phasing out of the education tax credit due to your AGI. Because your income is between the phase-out limits for the American Opportunity education tax credit, consider maximizing your retirement account contributions for the year. This will decrease your taxes for the year which may slightly reduce your financial aid eligibility. However the benefits from the increase in the education credit, the tax savings due to reduced AGI and the increase in you retirement account balance more than outweigh the small effect on financial aid eligibility.
  By contributing $19,500 to your company retirement plan, your education credit will increase from $1,694 to $2,500.

- **General Education Tax Credit Strategies for Financial Aid Candidates:**

  Strategy 1: By prepaying or delaying the payment of qualified education expenses, you can choose the year in which to claim the education credit. You can use this technique to insure that the maximum credit of $2,500/year is reached for the years in which the student will qualify for the credit.

  Strategy 2: If you expect a raise that will phase you out of the credit, consider prepaying during the tax year that you still qualify in order to maximize the credit.

HOUSEHOLD PLANNING STRATEGIES

- For assets of separated or divorced parents that are being contested and cannot be sold until the final divorce decree, if ownership or title of asset is being contested at the time the forms are signed, do not include on the forms.
- Consider the following strategies because the parents are divorced.

  Divorced Strategies

Proper college planning for divorce families can preserve income and assets for the family to fund future college expenses. While equitable property settlement remains a primary objective several planning techniques can be utilized to benefit both parents and the child.

1. The income and asset information of the parent with whom the student lived the most in the last 12 months must be listed. When structuring a divorce settlement, it may be beneficial for the parent who will have custody of the child to receive more assets and less income in the settlement. This can increase the aid eligibility since income is assessed at a much higher level than assets.

2. If the student has a step-parent at the time of the signing of the financial aid application, the step-parent's income and assets MUST be included on the financial aid application. Therefore, if feasible, delay remarriage until after the signing of the financial aid application

3. If assets are being contested at the time of filing the financial aid application they should not be reported. Even if this is resolved after the application is filed the student is not required to update the status.

4. Consider transferring assets that appreciate to the primary custodian so the asset can be used to fund college cost. This strategy works more effectively if the tax liability is passed to the parent in a lower tax-bracket. The tax savings alone may be used to fund part of the college costs.

5. If alimony is received, the receiving parent can establish a ROTH IRA to fund college cost since alimony is considered earned income.

6. "Qualified Domestic Relations Order" (QDRO) is a court order that provides the right to receive benefits from a qualified retirement plan of the ex-spouse. Benefits are included in the income of the spouse when they are paid, while benefits paid to children are generally taxable to the participant in the retirement plan. These distributions could be a source of funds for college funding.

7. If college cost is provided in an agreement the custodial spouse may consider obtaining a QDRO as collateral to insure the financial obligation will be met. Some colleges treat an educational clause in a divorce settlement as a student "resource" and reduce the child's financial aid eligibility on a dollar-for-dollar basis.

8. Under circumstances of remarriage the use of a prenuptial agreement should be considered. The agreement can be used to preserve wealth for children of a prior marriage.

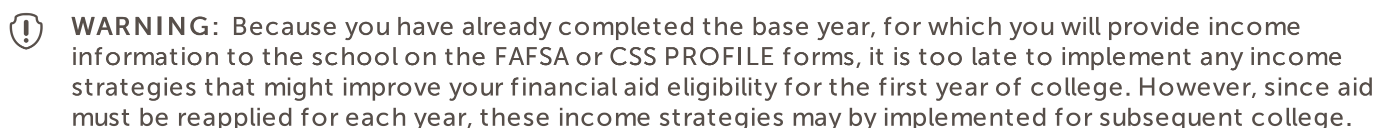
9. Remember that trusts or funds left to the child in a divorce settlement are assessed at a rate of .2 for schools that require the FAFSA and at a rate of .25 for schools requiring the CSS profile verses .056 for the custodial parent for financial eligibility. Therefore if considering a trust, avoid setting up college-bound children as the beneficiaries.

10. Even if a third party (i.e. ex-spouse) pays for college tuition and fees; the custodial parent, if claiming the child as a tax exemption, will be able to claim the American Opportunity Education Credit.

11. Consider a lump sum payment of alimony and child support into the non-college base years. This will increase aid eligibility during the college years.

INCOME PLANNING STRATEGIES (FOR THE STUDENT)

☑ This is a general student income strategy. Minimize tax refunds during the college years.



WARNING: Because you have already completed the base year, for which you will provide income information to the school on the FAFSA or CSS PROFILE forms, it is too late to implement any income strategies that might improve your financial aid eligibility for the first year of college. However, since aid must be reapplied for each year, these income strategies may by implemented for subsequent college.

ASSET PLANNING STRATEGIES (FOR THE STUDENT)

☑ Deduct future tax liability to show net worth. Include tax liability for any asset that has appreciated in value that can be liquidated.

V. College Savings and Funding Strategies

Since you may be a candidate for financial aid, you will be responsible for covering both your EFC and any part of the cost of college that is not covered by financial aid, merit aid, etc. This is known as your **"total contribution."** See **Section V** for an estimate of your total contribution for one year of college. Implementing strategies contained in this plan may decrease this cost. The **"AFTER"** column includes an estimate of what your **total contribution** may be after implementing strategies highlighted in the plan.

The following savings and investment types were listed on the data form as allocated for college:

Growing these savings for the next 1 years till your child begins college yields approximately $0. The projected four-year cost of attendance (note - this is not the same as your total contribution because it does not account for any financial aid) at University of California: Davis using a 3% annual inflation rate is: $145,803.

If there is a shortfall between your available college funds and your **total contribution** consider the following savings and funding strategies:

COLLEGE SAVINGS STRATEGIES:

Consider savings that will not adversely affect your financial aid eligibility. The effect on financial aid of using these savings to fund college costs are described.

These strategies are based on the lead-time available to you and your particular investment philosophy. The investment philosophy you have chosen is Conservative. **Consider the following investment options with the $300/month you indicated were available for college costs.**

☑ **Cash equivalents** like certificates-of-deposits, treasury-bills and money market instruments are low risk investments that can be used for short-term college financial planning needs.

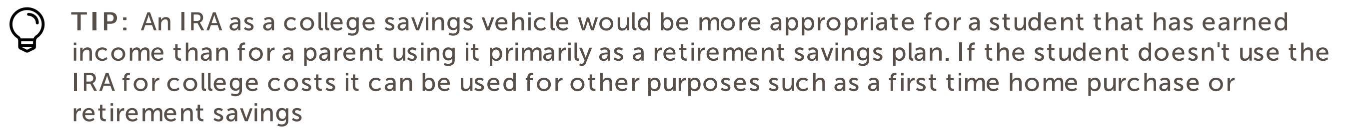
WARNING: Financial Aid Treatment of CD's, T-Bills and Money Market accounts:
The asset is assessed by the aid formulas as well as any interest income generated.

TIP: Rating of Cash as a college/retirement investment

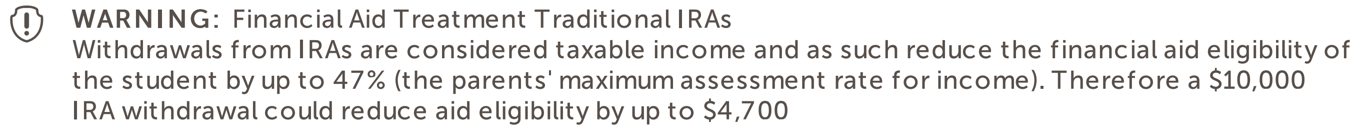
CATEGORY	RATING
RATE OF RETURN VS COLLEGE INFLATION	POOR
EFFECT ON FINANCIAL AID ELIGIBILITY	POOR
TAX FAVORED ACCESS FOR COLLEGE	POOR
TAX FAVORED ACCESS FOR RETIREMENT	POOR
USE FOR COLLEGE AND RETIREMENT	POOR

☑ **Traditional IRAs** are tax-deferred accounts with tax-deductible contributions subject to several restrictions. Since 1997, penalty-free withdrawals from IRAs are allowed to pay for "qualified"

undergraduate or graduate higher education expenses. The taxpayer will owe federal income tax on the amount withdrawn, but will not be subject to the 10% early withdrawal penalty.



TIP: An IRA as a college savings vehicle would be more appropriate for a student that has earned income than for a parent using it primarily as a retirement savings plan. If the student doesn't use the IRA for college costs it can be used for other purposes such as a first time home purchase or retirement savings



WARNING: Financial Aid Treatment Traditional IRAs
Withdrawals from IRAs are considered taxable income and as such reduce the financial aid eligibility of the student by up to 47% (the parents' maximum assessment rate for income). Therefore a $10,000 IRA withdrawal could reduce aid eligibility by up to $4,700

TIP: Rating of Traditional IRA as a college/retirement investment

CATEGORY	RATING
RATE OF RETURN VS COLLEGE INFLATION	EXCELLENT
EFFECT ON FINANCIAL AID ELIGIBILITY	POOR
TAX FAVORED ACCESS FOR COLLEGE	FAIR
TAX FAVORED ACCESS FOR RETIREMENT	FAIR
USE FOR COLLEGE AND RETIREMENT	FAIR

☑ **529 College Savings Plans** are tax-deferred trust accounts that are used to pay for qualified education expenses. This includes tuition, fees, books, supplies, equipment and room and board. 529 Plan benefits include:

Income Tax Advantages

1. Tax-deferred growth of the investment
2. Withdrawals are tax-free for if they are used for qualified education expenses
3. Contributions are treated as gifts and are not considered gross income to the beneficiary
4. The owner and beneficiary are not subject to tax on income earned during the accumulation period
5. Distributions are excluded from income tax if they are rolled over within 60 days to another 529 or if the beneficiary of the 529 changes to another family member

Income Tax Disadvantages

There is a 10% penalty on nonqualified distributions; that is, distributions not used for qualified education expenses. In addition, the withdrawal will be taxed as income to the account owner.

Estate and Gift Tax benefits

1. The money comes out of the donor's taxable estate and the gift qualifies for the annual gift tax exclusion.
2. In 2020 up to $140,000 (for married filing joint or $70,000 for single filing individual) can be contributed to an account tax-free, assuming no other gifts are made during the five-year period.

Availability and Flexibility

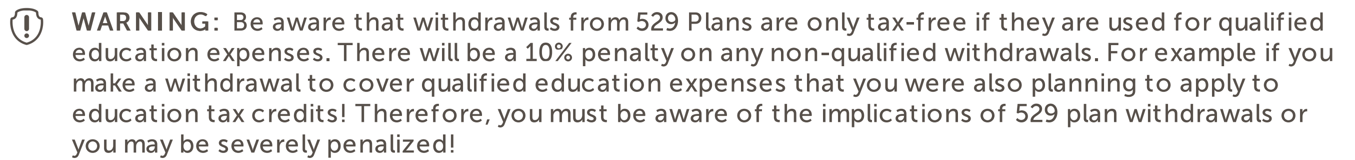
1. There is no income phase-out level for owning a 529 plan. Therefore, high-income earners can participate when other options are not available (i.e. Roth IRA, EE Bonds, etc.).
2. Owner maintains control of the account. The owner can change the beneficiary of the account and even refund the account (possibly subject to a penalty).

Maximum Contribution Allowed

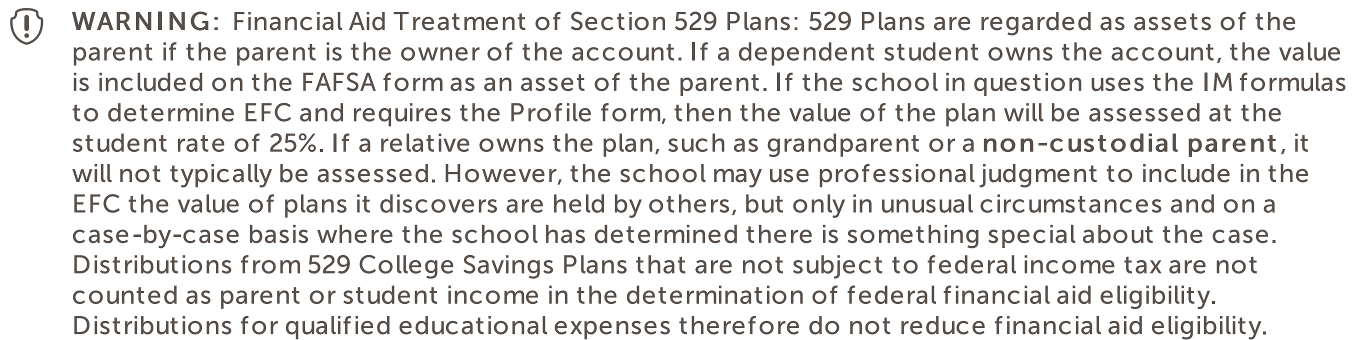
Each state determines the maximum allowable contribution.

Interaction with education tax credits (American Opportunity/Hope Credit)

A taxpayer may claim the education tax credit and take a tax-free distribution from a 529 plan as long as the credits and the 529 plan distributions are not used for the same education expenses.



WARNING: Be aware that withdrawals from 529 Plans are only tax-free if they are used for qualified education expenses. There will be a 10% penalty on any non-qualified withdrawals. For example if you make a withdrawal to cover qualified education expenses that you were also planning to apply to education tax credits! Therefore, you must be aware of the implications of 529 plan withdrawals or you may be severely penalized!



WARNING: Financial Aid Treatment of Section 529 Plans: 529 Plans are regarded as assets of the parent if the parent is the owner of the account. If a dependent student owns the account, the value is included on the FAFSA form as an asset of the parent. If the school in question uses the IM formulas to determine EFC and requires the Profile form, then the value of the plan will be assessed at the student rate of 25%. If a relative owns the plan, such as grandparent or a **non-custodial parent**, it will not typically be assessed. However, the school may use professional judgment to include in the EFC the value of plans it discovers are held by others, but only in unusual circumstances and on a case-by-case basis where the school has determined there is something special about the case. Distributions from 529 College Savings Plans that are not subject to federal income tax are not counted as parent or student income in the determination of federal financial aid eligibility. Distributions for qualified educational expenses therefore do not reduce financial aid eligibility.

TIP: Rating of529 Savings Plans as a college/retirement investment

CATEGORY	RATING
RATE OF RETURN VS COLLEGE INFLATION	GOOD
EFFECT ON FINANCIAL AID ELIGIBILITY	GOOD
TAX FAVORED ACCESS FOR COLLEGE	EXCELLENT
TAX FAVORED ACCESS FOR RETIREMENT	POOR
USE FOR COLLEGE AND RETIREMENT	FAIR

COLLEGE FUNDING STRATEGIES

Consider the following funding strategies if there is a shortfall between your available college funds and your **total contribution.**

☑ This strategy is available because either you or your spouse has been divorced.

- The deduction for alimony creates an opportunity to shift income from a higher to a lower tax bracket spouse. Additional payments that can be considered alimony are medical insurance and other expenditures, such as mortgage payments, real estate taxes, insurance, utilities, life insurance premiums, and college expenses, made on behalf of a former spouse under a divorce decree or separation agreement.
- A qualified domestic relation's order is a judgment, decree, or court order that provides your ex-spouse with the right to receive benefits from your qualified retirement plan or tax-sheltered annuity. Since the benefits are included in the income of your ex-spouse, the net effect is that the retirement income is shifted from your higher tax bracket to your ex-spouse's lower bracket. The benefit can then help fund college expenses.
- If your ex-spouse is responsible for future college costs and has a retirement plan, you may consider obtaining a qualified domestic relations order to insure the financial obligation will be met. You would receive nothing from the retirement plan unless the ex-spouse defaults on the financial obligations.
- In a divorce scenario a property settlement can be structured to transfer highly appreciated assets to the spouse who is in a lower tax bracket. When the assets are sold for college funding purposes, the lower tax liability will allow more funds to be available for college.

☑ This strategy is available because either you or your spouse has been divorced. Under the financial aid rules for divorce or separation situations, the income and assets of only the custodial parent are used to compute a child's eligibility for financial aid. (Note: Some private colleges will also factor in the income and

assets of the non-custodial parent.) Therefore, you should carefully consider with whom your child will live during college years.

- This strategy is available because you are divorced. If you are a single parent with child custody, consider filing as head of household. If your itemized deductions do not exceed your standard deduction, the deduction amount is increased from single to head of household from $6,350 to $9,350 for an additional $3,000 in deductions. The additional tax savings can help pay college costs.

LOAN STRATEGIES:

Reasons to Consider College Loans

Following are reasons, beyond necessity, for a family that **will qualify for financial aid** to consider using loans to pay for college:

1. **Loan Proceeds Are Not Penalized By the Financial Aid Formulas.** Probably the best reason for a financial aid candidate to use loans to pay for college is that proceeds are not penalized by the financial aid formulas, whereas proceeds from assets (except for 529 plans and Coverdell Savings Plans) will be! The impact of this can be dramatic. For example $10,000 withdrawn from a Roth IRA, although penalty free if used for education expenses, will still decrease your financial aid eligibility by $4,700 since the withdrawal will be counted in the financial aid formulas as income.
2. **You Expect Your Child To Have Some Financial Responsibility For Their Own Education -** When a student has a vested interest financially in their education they tend to be more focused about obtaining a degree - sooner than later!
3. **Your Assets Are Invested In High-Yield Investments -** If your family does not qualify for financial aid, here are some reasons why you may use loans instead of liquidating the assets:
    - There may be a significant spread between the interest earned on the investment and cost of the loan. For example, a 2% spread on $40,000 is equal to $800, which yields the same benefit as an $800 scholarship.
    - The cost of liquidating the investment (capital gains, income tax) may be high
    - If your investments are growing on a tax deferred basis, the longer they remain intact, the greater the compounding effect of the interest.
4. **Potential Tax Deduction -** College loan interest is deductible, up to $2,500 annually, within certain income phase-out limits. The income phase-out limit is $70000 to $85000 in Adjusted Gross Income (AGI) for single taxpayers and $14000 to $170000 for married taxpayers.

ADVANTAGES/DISADVANTAGES OF VARIOUS LOANS

This section highlights advantages and disadvantages of various loan strategies based on your responses on the dataform. They are ranked in descending order based on the pros/cons of each as well as your particular situation.

Stafford Loans

Stafford Loans are fixed rate and are not based on financial need. Therefore, the student can obtain this loan, regardless of whether the family qualifies for financial aid. The current Stafford loan interest rate is fixed at 2.75%. These loans are taken out in the student's name and therefore, the student will be entitled to the student loan interest tax deduction.

The amounts that can be borrowed by the student are as follows:

1. Freshman year - $5,500
2. Sophomore year - $6,500
3. Junior - 5th year - $7,500

The total undergraduate amount of Unsubsidized Stafford Loans that a dependent student can have is $31,000 of which as much as $23,000 can be subsidized.

The repayment of the Unsubsidized Stafford Loan interest begins within 60 days after the final loan disbursement. However this interest can be deferred. The principal repayment does not start until six months after the student graduates, leaves college, or drops below half-time enrollment.

Subsidized Stafford Loans are available to students who are financial aid candidates and they are generally included as part of a school's financial aid package for a student. The primary benefit is that the interest payments are subsidized as long as the student is in school half-time.

TIP: A Stafford Loan and especially a Subsidized Stafford Loan offers more benefits for the student than other loan options and should generally be considered first. Here are a couple of reasons:

1. The interest rate on a Stafford Loan is lower than the interest rate on a PLUS or private student loans.
2. The interest may be subsidized during the college years if the student qualifies for a Subsidized Stafford Loan - provided they are in school at least half-time.
3. Once the student graduates and is no longer a dependent, he can likely claim student loan interest deduction - up to a maximum of $2,500 for each of the 5 years the interest is paid - since his income will likely be below the phase out level. These tax savings can help pay back the loan.

Federal PLUS Loans

Federal PLUS (Parents' Loans for Undergraduate Students) loans are not need-based loans. Therefore, a parent can obtain this type of loan even if the student has no financial need. The PLUS loan interest rate is 5.30%. These loans are taken out in the parent's name. The parents can claim the student loan interest deduction, if their income is within the phase-out limits.

The maximum amount that can be borrowed by the parent is the cost of attendance at the student's college, less any tax-free scholarships.

EXAMPLE: If the cost of attendance at the student's college was $25,000 per year the parents could borrow $25,000 in PLUS loans each year. PLUS loans are only for undergraduate college expenses and do not cover graduate school expenses.

PLUS loans are signature loans (no collateral required). Only one parent must sign the loan application. If the signatory parent dies or becomes permanently disabled during the repayment period, the remaining loan principal balance is forgiven.

Repayment of a PLUS loan begins within 60 days after the final loan disbursement for the academic year. However, if the signatory parent is enrolled in college, as an undergraduate, on a half-time basis (six credits) the repayment may be deferred. PLUS loans can be consolidated and repaid over a 30-year period.

Retirement Account Loans If you are considering using your retirement account to help pay education expenses, consider borrowing from it instead of a "hardship" withdrawal. Generally, you can borrow up to $50,000 or half of the account balance - whichever is less - and pay back the loan over five years. Interest rates vary, but are typically the prime rate plus one percentage point.

WARNING: If a parent loses his job, or changes jobs, the outstanding balance must be immediately repaid on a retirement loan, or it will become taxable income, subject to ordinary taxes plus penalties. Also, even though the retirement fund is earning interest on the college loan, it is foregoing the higher rate of return it was earning in the investment.

Some retirement plans may disallow distributions before retirement. However, hardship distributions from 401(k) plans (subject to the 10% penalty) are allowed to meet certain college expenses.

WARNING: Due to the significant limitations and penalties, borrowing from your retirement funds to pay for college should generally be avoided. In addition, if you borrow from your retirement account for college expenses you will not be able to deduct the interest as student loan interest on your tax return.

VI. Assumptions Made in Creating This Report

The following assumptions were used in the processing, analysis and generation of your report:

1. The student will be in college full time.
2. The EFC calculated is based on a dependent student.