

Perspectives - On Business

Volume 1, Issue 23

February 10, 2003

The \$64,000 Question

We would each love to have our kids attend college. There are many types of plans and arrangements to consider when funding college fees and expenses.

What is the best way to put money aside for these costs?

That is truly the \$64,000 question these days. With the market being what it has been, college costs 30% more than a decade ago, and the fact that it can be difficult for determined and bright students to finish in four years, makes it a challenge that has many parents and grandparents stumped.

There are eight basic types of education plans in use today:

1. Section 529 Plans, also known as College Savings Plans
2. UTMA/UGMA/CESA or Educational Savings Accounts
3. Minors' Accounts or Custodial Accounts
4. Series EE (Savings Bonds) Trusts
5. Demand Trusts
6. Life Bonds
7. Direct (Life) Insurance
8. Payments to the Institution of Higher Education

Each of these plans has different characteristics and tax treatments. Considering their unique features, each has its place. How do you choose the best one for your favorite future student?

Start with the age and abilities of the child, the tax bracket of the donor, and the means and objectives of the family. Following are questions to discuss before selecting a plan:

- What are the likely costs for this child to attend the type of college or university s/he should attend, at the time they will arrive? OSU's basic cost is approximately \$15,000 per year.

- How would you feel about your child(ren) having access to all that money when s/he is 18 or 21? What if the child doesn't attend college or drops out because their body-art studio is going gangbusters?
- Do you want to be able to use the money for another child...or, another purpose?
- How much money do you want or need to set aside at a time? How many people will contribute to the plan over time?
- Would you want your student to qualify for federal aid or other scholarships?

Funding ceilings on various plans range from \$2,000 per year to \$55,000 once every five years. Most are capped at \$11,000 per donor per year. Among the regulations affecting the plans, are different provisions for federal and state income tax, as well as gift, estate and generation skipping taxes.

You can see how this quickly becomes complex. Next week, we will cover the flexibility provisions offered by some of the plans, and provide a case study answering the \$64,000 question. In the meantime, if you have a question to pose on the topic of college savings techniques, please submit it to me at Sandra@fpperspectives.com.

We look forward to hearing from you!

- - -

Future Finances' Market Update

By Max Larsen

Monday, February 10, 2003

I'm in the process of finishing David McCullough's fantastic Pulitzer Prize winning book on Truman. The more I read and study the great heroes of the U.S. (and the world) the more I'm convinced that there is a providence that puts certain people in certain positions at certain times to shape the future-for good and bad. Truman was indeed that kind of person, but definitely for good. He was the right man for that time, to put the finishing touch on World War II, and even more importantly the successful rebuilding of the European economies as the Marshal Plan was put into action.

But despite these very important acts in his Administration, many people could not stand Truman. There was a universal negative opinion of Truman - especially when he fired egotistical Douglas McArthur. But McCullough (and history) has

proven that McArthur was a massive egotist who produced much harm in the Korean War era. I'm only relating this because one of Truman's notes expressed during this period of intense public distaste a truism from his Missouri background, that most people lose their drive and energy as they are shucking a long row of corn.

Well, this is a "long, long, long, long row of corn," that we are shucking isn't it? The stock markets, the currency markets, the bond markets, and the commodity markets have been in a wild period of metamorphosis and volatility since the 1997 period. We're going to look back on it one day as one of the most important periods in history to set the stage for a successful future, but as this wall of camouflage hems us in, the future is hard to see.

So here we are pretty close in my opinion to getting to the end of this Long Row of Corn, but our energy level is really wearing down. I laughed out loud--in the immediate wake of reading Truman's corn analogy--when I read the latest week's statistics for the A.A.I.I. investor sentiment survey. They found that 22.86% were bullish, 25.71% were bearish, and get this--51.43% were neutral. In other words, the bulls are worn out, the bears are worn out, and 51.43% JUST DON'T CARE anymore. They have given up on guessing what the market is going to do.

There Are Three Potential Events That Will Spark The Stock Market

What the stock market really needs is a catalyst event that will cause money to pour back into the stock market. There are three potential catalysts that I can envision. First, as soon as bond yields soar higher, many bond investors will likely return to the stock market, just like they did after Treasury bond yields rose last October. Second, President Bush's dividend tax relief is passed by Congress, which entices yield hungry investors back into the stock market. Finally, as soon as there is a regime change in Iraq, the stock market will rally. All three of the foregoing events will likely occur in the upcoming weeks and months, and should help the stock market start the recovery process. I realize that everyone is just plain tired, but giving up on long-term investing is not the answer (the shucking of the long row of corn is about over). Stay the course.

I'll see you on Monday my friends.