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For Financial Success

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Seeking Financial Aid: Don't Fear The FAFSA

Saving money to pay for college is a daunting proposition even if you're reasonably well off financially. With tuition increases continuing to outpace the overall inflation rate year after year, parents may be hard pressed to come up with all of the funds needed to finance a child's higher education. But financial aid could help fill the gap.

Each year, more than 13 million undergraduate and graduate students get some form of financial assistance. But the federal government and universities won't simply hand you the money. To determine whether you qualify for financial aid, you must complete and file the Free Application for Federal Student Aid (FAFSA).

Who should fill out a FAFSA? Practically everyone. Even if you don't think you'll qualify for financial aid, there's no harm in trying because the filing is free. And even students from the wealthiest families may need to submit a FAFSA if they're going to be in a work-study program.

But just because you should file a FAFSA doesn't mean you won't be intimidated by the process itself.

Although the form has been simplified somewhat in recent years, it still can be challenging. Don't hesitate to seek our assistance.

Starting the Process

Virtually every college admission program requires a FAFSA for financial aid purposes. While a school may ask for other financial information in addition to that sought in the FAFSA, the basis form is pretty much mandatory.

And so you'll have to come up with answers to about 130 questions about your family assets and income. Based on the information you provide, the FAFSA administrators will calculate the "expected family contribution" (EFC) for your family. How many people are in your household, your family income, the number of students in college, and most assets (but not retirement funds) will be factored in.

Where can you find the FAFSA? It's available online all year long at www.fafsa.ed.gov. But you can't file it until January 1 of the year in which a student plans to start college (for example, January 1, 2016, for someone starting school on September 1, 2016). But be sure to file the form as early as possible because financial aid often is awarded on a first-come, first-served basis. Late filers may miss the bus and receive nothing.

To fill out the form, you'll need income and expense data from the prior year, including:

- Taxable income for both the parents and the

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FAFSA

How it's Calculated

- FAFSA is based on two major factors:
  - Cost of Attendance (COA)
  - Expected Family Contributions (EFC)
- COA – EFC = financial need
  - Financial need determines how much Need-Based Aid a student is eligible for
  - Non-Need Based Aid subtracts already awarded financial aid (e.g. scholarships or grants) from COA

Based on information provided by https://studentaid.ed.gov/fafsa/next-steps/how-calculated

Saving For Private Or Prep School? A Tax-Smart Way

Does your family have a history of students attending a prestigious private or prep school? You may want to continue this legacy through your own children and grandchildren, but the tuition and related fees for these institutions can be pricey.

Although the tax law provides several tax-favored ways to defray college costs – most notably, the Section 529 plan – those tax breaks generally don't extend to other schools, with one exception: the Coverdell Education Savings Account (CESA).

You can set up a CESA for anyone, such as a child or grandchild, and contribute to the account. Annual contributions are limited to $2,000. That's relatively low, especially when compared to Section 529 plans that allow six-figure contributions, but the other advantages of CESAs are similar to those of 529 plans – no current tax on earnings and tax-free withdrawals to pay qualified expenses.

With a CESA, "qualified expenses" cover costs from kindergarten through 12th grade, as well as college. The money may be used for tuition and fees, room and board, uniforms, transportation, books and supplies, academic tutoring, and computers – even Internet access charges.

There's one major drawback: CESA contributions are phased out for high-income taxpayers. The phase-out for joint filers begins at $190,000 of modified adjusted gross income and ends at $220,000.

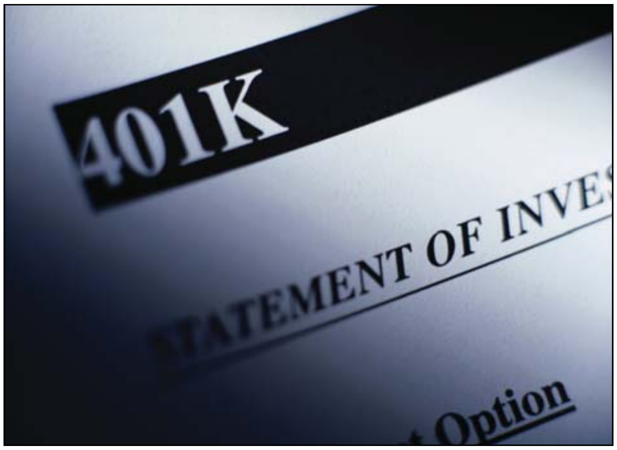
Take Early Withdrawals Penalty-Free

Is 60 the new 40? People today live longer than they did in earlier times and stay more active later in life. But the tax law provisions based on age, especially those relating to employer retirement plans and IRAs, haven't changed. In other words, regardless of your lifestyle, the magic age to begin penalty-free distributions remains 59½.

What about early withdrawals made before that age? Generally, those will be subject to a 10% penalty in addition to the regular income tax you owe. But several key exceptions to the 10% penalty are written into the tax code. The list differs, depending on whether you're withdrawing funds from a 401(k) or another plan from your job or an IRA you set up on your own.

Here's a rundown on exceptions to the 10% penalty for withdrawals from 401(k)-type plans. They include distributions:

- Made to your beneficiary or estate after your death;
- Made because you are totally and permanently disabled;
- Made as part of a series of substantially equal periodic payments over your life expectancy (or the life expectancies of you and a designated beneficiary) if you stop working at the company with the plan;
- To the extent you have deductible medical expenses exceeding 10% (7.5% if you or your spouse are age 65 or older) of your adjusted gross income (AGI);



- Made due to an IRS levy of the plan under code section 6331;
- That are qualified reservist distributions;
- Made after you left the company after age 55 (age 50 for certain public safety employees);
- Made to someone else under a qualified domestic relations order; and
- Of dividends from employee stock ownership plans (ESOPs).

The exceptions to the 10% penalty tax for early distributions from IRAs include those that are:

- Made to a beneficiary or estate because of the IRA owner's death;
- Made on account of disability;
- Made as part of a series of substantially equal periodic payments for your life (or life expectancy) or the joint lives (or joint life expectancies) of you and a designated beneficiary;
- Qualified first-time homebuyer distributions;
- Not in excess of your qualified higher education expenses;
- Not in excess of certain medical insurance premiums paid while unemployed;
- Not in excess of your unreimbursed medical expenses above the stated percentage of AGI;
- Due to an IRS levy; and
- A qualified reservist distribution.

There are some significant differences between these two lists. For example, a payout at age 55 or older when you leave a job is an exception for employer plan distributions, but not IRAs. Conversely, the exception for qualified first-time homebuyer expenses only applies to IRAs. We can help guide you in making the withdrawal decisions that are best for your situation. ●

Compare Minor's Account To 529 Plan

Until the Section 529 college savings plan came along, parents looking ahead to the high cost of college for their children often set up accounts under their states' Uniform Gifts to Minors Act (UGMA) or Uniform Transfers to Minors Act (UTMA). But the broad benefits of 529 plans have made them more popular than UGMAs and UTMAs in recent years. Here's how the two saving vehicles compare:

UGMA/UTMA accounts: These are custodial accounts to which you contribute money for a minor's benefit. As the custodian, you control the investments until the child reaches age 18 or 21, depending on the laws of your state.

However, for tax purposes, any earnings on account assets are taxed to your children at their lower tax rates. For 2015, the first $1,050 of earnings in a custodial account is tax-free and the next $1,050 is taxed at the child's rate. But earnings beyond $2,100 are generally subject to the so-called kiddie tax—they're taxed at the parents' top rate. And whether you pay or your child pays that tax, it creates an annual drain on the account during the years you're trying to build up funds for college.

Section 529 plans: With this type of state-sponsored plan, you contribute to an account for which you name your child as beneficiary. Then you're in charge of how the money is invested (though only among the options the plan offers, and the ability to switch investments is limited). Unlike in a custodial account, earnings from investments aren't taxed while they're accumulating. And distributions from the plan that go to pay qualified college expenses, such as tuition, also aren't taxed.

Those provisions give 529 plans a dramatic advantage over a custodial account. There aren't any kiddie tax complications with a 529 because the

8 Top Tax Reasons To Convert To A Roth IRA

Should you convert assets in a traditional IRA into a Roth? It depends on your personal circumstances and preferences, and there's no right or wrong answer. Still, there are a number of significant reasons why you might want to pull the trigger on a Roth conversion. Consider these eight:

1. **Tax bracket management.** Most people who hesitate to make a conversion are stopped by the tax consequences—that you will owe income tax on whatever part of the converted amount hasn't already been taxed. But you could minimize the pain of that by making gradual, year-by-year conversions in which you transfer only as much as will take you to the upper limits of your current tax bracket. That lets you avoid having much of the conversion taxed at a higher rate, and you can repeat this strategy in subsequent years until you've converted most or all of the funds in your traditional IRA.

2. **Tax-free payouts.** Once you've paid the conversion tax, it can be free sailing as far are taxes are concerned. Investment income and capital gains in the Roth aren't taxed now and won't be taxed at all if withdrawals are made from a Roth that's at least five years old and come out of the account after age 59½, because of death or disability, or to pay first-time homebuyer expenses (up to a lifetime limit of $10,000).

3. **Minimizing net investment income tax.** Some investors must pay a 3.8% surtax on whichever is lower—their net investment income (NII) or the amount by which their modified adjusted gross income (MAGI) exceeds $200,000 for single filers or $250,000 for joint filers. Although payments from traditional IRAs don't count as NII, they are part of your MAGI for this purpose. But the tax-free distributions from a Roth leave your MAGI untouched.

4. **No required distributions.** With a traditional IRA, you must begin taking required minimum distributions (RMDs) in the year after the year in which you turn age 70½—and then you have to keep taking RMDs every year for the rest of your life. The amount of the annual RMD is based on a life expectancy table and the balance in the account at the end of the prior year. However, that doesn't happen with a Roth IRA. You can leave your account intact if you don't need the cash, preserving a larger nest egg for your heirs—and one that they, too, will be able to tap without income tax consequences.

5. **Flexibility during retirement.** If you convert some or all of your traditional IRA funds into a Roth, you'll have more flexibility in managing your tax liability in the future. For instance, if you need money, you could decide to withdraw it from a traditional IRA or another taxable account or from a Roth or a combination that suits your needs. Typically, it's advisable to withdraw taxable amounts up to the top of your current tax bracket before drawing money out of the Roth. Yet if you don't want to owe any current taxes, you can withdraw funds from the Roth (as long as you've had the account for that initial five-year period).

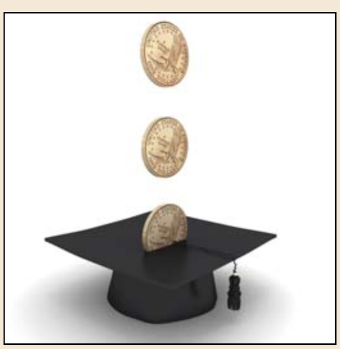
6. **Taking advantage of ordering rules for distributions.** Even if you haven't had the Roth for five years and don't yet qualify for completely tax-free distributions, you still can take money out of a Roth without paying tax. Early withdrawals are taxed under special "ordering rules" that treat distributions as coming first from your contributions to the account, then from amounts you converted from a traditional IRA, and finally from taxable earnings. So most or all of your payout may be tax-free anyway. You'll have to pay tax only if you withdraw a portion representing investment earnings in the account.

7. **Protection against tax increases.** If federal income tax rates rise in the future, the tax protection provided by a Roth will become even more valuable, especially if you are able to convert to a Roth in a year in which you are in a relatively low tax bracket.

8. **Estate tax considerations.** Finally, income taxes aren't the only taxes that may be a consideration. Like assets in a traditional IRA, funds in a Roth are included in your taxable estate, but may be protected by the generous federal estate tax exemption ($5.43 million in 2015). In addition, though your heirs will be required to take RMDs from the Roth during their lifetimes, those withdrawals should be income tax-free and thus more valuable than taxable withdrawals from an inherited traditional IRA.

Of course, there are other factors that may apply to your situation. Make an informed decision. ●

growth in the account you've set up for your child isn't taxed at all during the years leading up to college. And whereas you may owe capital gains tax when you sell investments in a custodial account to pay college expenses, that doesn't happen when you take money from a 529 to pay for college.



In addition, if your kids have a custodial account, they get control of the money once they reach the age of majority in your state—and they can use it any way they want, not just for college. That doesn't happen with a Section 529 plan—you stay in control of the account regardless of the age of the beneficiary.

A final disadvantage of a custodial account is that it may hurt a student's eligibility for federal financial aid because it counts as that student's asset, not that of the parents. Section 529 plans, in contrast, are treated as if they belong to the parents and aren't likely to affect financial aid eligibility.

So while there may be situations in which a custodial account makes sense in saving for college, in most cases a 529 plan will work better. ●

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Don't Fear The FAFSA

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student, including wages, pensions, capital gains, interest, dividends, annuities, unemployment compensation, alimony, rents, and business income

- Non-taxable income for both the parents and the student, including workers' compensation, welfare benefits (but not food stamps), housing and food allowances, child support, untaxed Social Security benefits, untaxed income from pensions and annuities, veterans' benefits, tax-exempt interest income, deductible payments made to a retirement plan, and earned income tax credit
- Expenses such as income taxes and child support
- The value of cash, savings, and checking accounts of the parents and the student
- The net worth of all investments of parents and student (except for retirement plans), including stocks, bonds, CDs, money market funds, mutual funds, commodities, trust funds, education IRAs, and state-based college savings plans (excluding pre-paid tuition plans)
- The value of estate holdings (e.g., rental property and second homes), but you don't have to count the equity in your principal residence
- The net worth of a family business or farm (excluding farms that are principal residences)

TheThe Expected Family Contribution (EFC)

The EFC is the amount your family is expected to contribute to your student's college education for one year. The lower the EFC, the larger the financial aid award that your student may receive.

Sometimes the EFC rules can work in your favor. If your student is admitted to a school that agrees to meet students' full financial needs, the EFC lets you know the most you'll have to pay regardless of how much that college costs.

Suppose that a family's EFC is $25,000 and the student is applying to a school with a total cost of $35,000 a year. That family might expect to receive up to $10,000 in financial aid. What if the college costs $50,000? The financial aid award could be as high as $25,000. The basic equation to remember is: Cost - EFC = Need.

Filing a FAFSA is a necessary evil for those seeking financial aid for college. We can help you position your family for the best possible result. ●