Education Funding

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April 16, 2007

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Education Funding
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FYI

A key to your child's future is a college education.

Two important questions relating to education are: 1) How much is it going to cost? 2) How are you going to pay for it?

In 2007, college costs (tuition, room and board) at a public institution average $12,796. At private institutions, the average is $30,367. It is likely that these costs will more than double over the next ten years.

Source: The College Board, "Trends in College Pricing," 2006.

Is it worth it?

Men with college degrees earned 72% more, and women 81% more, in hourly compensation than those with a high school degree.

Source: Report on the american workforce, U.S. Department of Labor, 2001.

Historically, education costs have outpaced inflation. General inflation averaged 3.0% from 1986 to 2006. Education inflation averaged 6.7% during this same period.

Source: Education Inflation: The College Board Annual Survey of Colleges, 2006. General Inflation: U.S. Department of Labor, Bureau of Labor Statistics, Washington D.C., 2007.

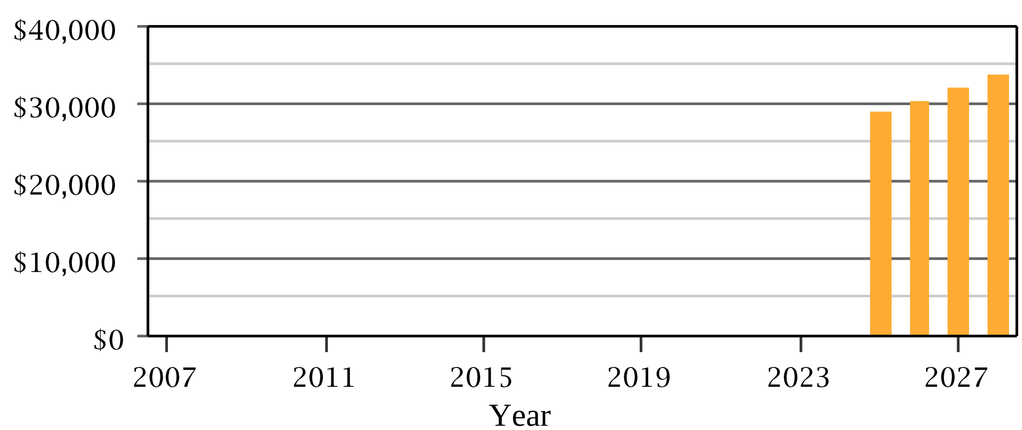
Education Goals

Student Name	Years Until Need	Years Of Need	Annual Cost (today's dollars)	School Name	Percent to Fund	Total Cost (future dollars)
Adam	18	4	$11,004	U. of Georgia	100%	$125,260

Total education cost (future dollars) **$125,260**

Future Education Needs

This chart displays the total future amount of education funding needed annually.



An assumed education inflation rate of 5.50% is used.

FYI

An education funding program should be:

- Affordable
- Flexible
- Risk suitable
- Tax favorable

In addition, money should be available for education even if you die or become disabled.

To reach your education goals, your money needs to grow. For money to grow, you need:

- Financial resources
- Time
- Earnings (a return on investment)

Many special programs and strategies are available to help with education funding. Eligibility for these is based on several factors which you should review before implementing a program or strategy.

- "529" Qualified Tuition Program
- Coverdell Education Saving Accounts
- Hope Credit
- Lifetime Learning Credit
- IRA Withdrawals
- Student Loan Interest Deduction
- Financial Aid
- Custodial Accounts
- Trust Accounts

Education Funding

Current Funding

Education assets	$0
Annual education funding	$1,200
Number of years to continue funding	18
Other future amount expected for education	$0
Year other future amount will be available	2007

Additional Amount Needed To Fully Fund The Need*

Monthly for the next 252 months	$125
- OR -	
Yearly for the next 21 years	$1,502
- OR -	
Lump sum today	$15,036

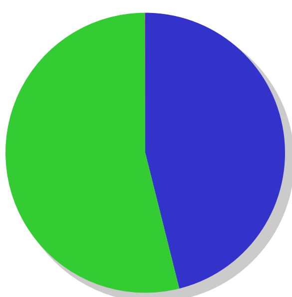
Proposed Funding

Additional monthly funding (During the next 252 months or 21 years)	$125

* The suggested amount is in addition to the current funding identified above.

Funding Solutions

With the addition of the Proposed Funding identified above you may be able to fund 99.96% of your education goal(s).



Current Program	46.08%
Proposed Funding	53.88%
Shortfall	0.00%

Assumptions	Current Program	Proposed Funding
Contributions increase each year by	2.00%	0.00%
Assumed annual rate of return (before tax)	8.00%	8.00%
Assumed effective income tax rate	25.00%	25.00%

FYI

Setting financial goals is the first step to reaching them.

Knowing where you are in relation to your education goals can help you know how to achieve them.

To reach your education goals, you should start an accumulation plan and stick to it.

It is important to regularly review your education goals and your progress.

A periodic meeting with your financial professional will be helpful as you work together towards achieving your goals.

Summary

Funding Your Educational Expenses*

Your needs may be fully funded with one of the following three funding patterns:

Monthly accumulation for the next 252 months	$125
Yearly accumulation for the next 21 years	$1,502
Lump sum today	$15,036

Your Current Situation

Percent of goal funded by current programs	46.08%

Your Solution

Total additional monthly funding of	$125
Could increase education funding to	99.96%

* The suggested amount is in addition to your current funding for education and does not include the additional monthly funding listed above.

Assumptions	Current Program	Proposed Funding
Contributions increase each year by	2.00%	0.00%
Assumed annual rate of return (before tax)	8.00%	8.00%
Assumed effective income tax rate	25.00%	25.00%

Funding Options

Education Savings Account Types

529 Plans

'529 Plans' are 'Qualified Tuition Programs' that are state-operated investment accounts governed by federal legislation found in Section 529 of the Internal Revenue Code. 529 Plans differ from state to state and normally are implemented using either prepaid tuition or special college savings plan accounts. So long as the state plan satisfies certain basic requirements, special tax benefits are available.

529 Plan assets can be used to pay for qualified higher education expenses at any accredited post-secondary institution in the United States that is eligible to participate in certain federal student aid programs. Such institutions include public and private colleges, universities, graduate schools, two-year community colleges, and vocational-technical schools. Qualified expenses include tuition, books, tutoring, computer equipment, and room and board. Taxes and/or tax penalties may be due if these funds are used for any other purposes.

Note that there are fees and charges associated with 529 Plans, and that the underlying investment options are subject to market risk.

Rules For Contributors

Generally, anyone can create and contribute to a 529 Plan: parents, grandparents, other relatives and even family friends can open accounts on behalf of the same beneficiary. However, states may impose a maximum annual contribution limit and/or a maximum total amount that contributors may keep in the account.

Contributors retain control of assets until withdrawals are made for qualified higher education expenses. Contributors can withdraw their contributions from the account at any time. If the account beneficiary receives a scholarship for higher education expenses, one may withdraw an amount from the account equal to the value of the scholarship without paying a tax penalty. Contributors may also make tax-penalty free withdrawals in the event of the death or disability of the beneficiary. Also, contributors can change the beneficiary to be another family member of the original beneficiary without paying a tax penalty.

Taxation Issues

At the federal level, contributions are not tax deductible. However, earnings grow tax deferred, and distributions of earnings are exempt from federal taxation if the withdrawals are used to pay for qualified higher education expenses. Withdrawals of earnings for non-qualified reasons are taxed as ordinary income at the contributor's rate, and an additional tax penalty equal to 10% of the gain also will apply.

State tax treatment varies from state to state. The contributor's state of residence and taxation or the account beneficiary's state of residence and taxation may offer its own qualified state tuition program based on Section 529 of the Internal Revenue Code. Such state sponsored programs may have state tax advantages or other benefits that are available exclusively for the particular state's residents or taxpayers. Those benefits may include deductions for contributions and/or exemptions from state tax for qualified withdrawals. In addition, the state may impose tax liability on withdrawals and/or earnings with respect to out-of-state plans. One should carefully consider the features and benefits of such a plan(s), if available, before choosing to contribute to an out-of-state 529 Plan.

Things to Remember

Before deciding on a particular college savings plan, consult with your legal or tax advisors and consider the following: (1) federal tax benefits, although existing tax laws are subject to change at any time; (2) available state tax benefits and maximum deduction amounts, if any, in the state where you reside and where the beneficiary of the 529 Plan account resides; (3) contribution limits;(4) investment options; (5) investment horizon; (6) plan performance; and (7) fees and expenses involved. Additionally, please review any relevant federal or college-based financial aid programs to determine how 529 Plan earnings are treated under those programs.

Coverdell Education Savings Account (CESA)

Formerly called Education IRAs, Coverdell ESAs provide tax benefits to save for education goals. Up to $2,000 per year (phased out at higher income levels for individual contributors) may be contributed for each student, until the student turns 18. Any individual, corporation, or tax-exempt organization may contribute to a Coverdell CESA. Contributions are not tax deductible, but earnings grow tax-deferred, and distributions are exempt from federal taxation if they are used to pay for qualified education expenses. State tax treatment varies. Taxes and tax penalties may apply if these funds are used for any other purposes. Qualified expenses include tuition and books, tutoring, computer equipment, and room and board. Unlike 529 plans, CESAs can be used for both 'higher education expenses' as well as elementary and secondary school expenses.

Traditional/Roth IRA Withdrawals

Generally, taxpayers may withdraw funds, without tax penalty, from a Traditional or Roth IRA for the purpose of paying higher education expenses. The account may be owned by a parent, a grandparent, or the student.

The contribution amount to a Roth IRA can be withdrawn at anytime tax and penalty free. Withdrawals of earning from Roth IRAs are subject to income taxes unless the Roth IRA is held for at least five years and the IRA holder is:

- Age 59 1/2 or older
- Deceased
- Disabled; or
- Taking a distribution of up to $10,000 for a first time home purchase

Withdrawals from Traditional IRAs are subject to taxation as ordinary income. Withdrawals may be used to fund expenses such as tuition, books, fees, room and board, supplies and equipment.

Financial Aid

Financial aid for college usually comes in the form of grants, scholarships and loans. Grants and scholarships do not have to be repaid. Most grants are need-based, which means they are awarded based on the student's income and other financial factors. Scholarships are usually based on academic performance. Loans need to be repaid with interest. Special government loans are often available that defer interest and payments for a specified grace period.

Getting financial aid is not automatic. To receive financial aid, you may have to demonstrate that you:

- Have a financial need
- Have a high school diploma, GED, or equivalent
- Are a part-time or full-time student in an eligible program
- Make satisfactory academic progress

For more information on financial aid, visit the website for Federal Student Aid at http://studentaid.ed.gov or call 1-800-4-FED-AID.

Tax Incentives

Hope Credit

For students in the first two years of college, a Hope tax credit may be available. A Hope Credit may reduce your tax liability by as much as $1,650 per year (in 2007, adjusted annually for inflation) by allowing 100% of the first $1,100 of qualified expenses and 50% of the next $1,100 to be claimed as a credit. The credit is non-refundable: it cannot reduce your tax liability below zero. This credit is phased out when adjusted gross income is above a certain amount, depending on tax filing status (currently $47,000 - $57,000 if single and $94,000 - $114,000 if married filing jointly in 2007). One Hope Credit may be claimed per year for each student who meets all the qualifications.

To qualify, the student must be within his/her first two years of higher education and registered at least half-time at an accredited school. The credit covers only qualified education expenses, which are generally limited to tuition and fees required for enrollment.

* Consult with your tax advisor to review your particular situation.

Lifetime Learning Credit

For students beyond the first two years of college, or enrolled part-time or to improve job skills, a separate (more limited) tax credit may be available. A Lifetime Learning Credit may reduce your tax liability by as much as $2,000 per year by allowing 20% of qualified expenses incurred to be claimed as a credit. The credit is non-refundable: it cannot reduce your tax liability below zero. The tax credit is phased out when adjusted gross income is between certain amounts, depending on tax filing status (currently $47,000 - $57,000 if single and $94,000 - $114,000 if married filing jointly in 2007). One tax payer may claim Lifetime Learning Credits for multiple students in the same year, up to the credit limit. The credit covers only qualified education expenses, which are generally limited to tuition and fees required for enrollment.

* Consult with your tax advisor to review your particular situation.

College Tuituion Deduction

Taxpayers may deduct $4,000 per year for qualified higher education expenses. The deduction is phased out when adjusted gross income is between certain amounts, depending on tax filing status ($65,000 - $80,000 if single, and $130,000 - $160,000 if married filing jointly), and is not available in the same year a Hope or Lifetime Learning credit is claimed for the same student. It is not necessary to itemize your tax return to claim this deduction (sometimes called an #above-the-line deduction'). Depending on your tax situation and the amount of college expenses, it may be more advantageous to claim the education expense deduction than to claim a Hope or Lifetime Credit in a tax year. Consult your tax advisor to determine your best course of action. Under current law, the education expense deduction will no longer be available after the year 2007.

* Consult with your tax advisor to review your particular situation.

Student Loan Interest Deduction

Individuals with qualified education loans used to pay higher education expenses for the taxpayer, a spouse, or a dependent may claim an 'above-the-line' deduction for interest paid during the first 60 months in which interest payments are required. Up to $2,500 of interest may be deducted, and the deduction is phased out when adjusted gross income is between certain amounts, depending on tax filing status ($55,000 - $70,000 if single and $110,000 - $140,000 if married filing jointly in 2007).

* Consult with your tax advisor to review your particular situation.

Tax Incentives

Coordination of Benefits

Federal tax rules allow tax benefits to be coordinated with withdrawals from tax-deferred accounts for the funding of qualified education expenses. Each year qualified education expenses occur, a taxpayer may claim one tax credit (Hope or Lifetime) or deduction per student. After a credit or deduction is claimed, no other credit or deduction will be available for the student. If a taxpayer claims multiple students as dependents on his or her tax form, the taxpayer may claim a combination of credits and deductions, one for each student. The remaining balance of qualified expenses may be funded through withdrawals from tax-deferred accounts.

For example, assume a taxpayer claims one student as a dependent, and that student has $8,000 of qualified education expenses in a calendar year. Because the student is eligible for the Hope Credit, the taxpayer uses the first $2,200 of those expenses to qualify for the full $1,650 Hope Credit. The taxpayer funds the remaining $5,800 by making penalty-free withdrawals from tax-deferred or tax-exempt accounts such as a Coverdell Education Savings Accounts or IRAs. In another situation, assume that a taxpayer claims two students as dependents. The first student qualifies for either the Hope Credit or the Lifetime Learning Credit. The second student qualifies only for the Lifetime Learning Credit. The taxpayer elects to claim the full $1,650 Hope Credit for the first student (using $2,200 of qualified education expenses to claim this). Additionally, the taxpayer claims up to $10,000 of qualified expenses for the second student via the Lifetime Learning Credit. The taxpayer then funds the remaining balance of each student's expenses by making penalty-free withdrawals from tax-deferred or tax-exempt accounts.

Note that expenses paid with funds withdrawn from a tax-deferred account may not be claimed for tax credits or as deductions.

Tax benefits and education funding accounts have different definitions of what constitutes "qualified education expenses". Always check the specific rules for each benefit and resource in conjunction with each education expense, and review your particular situation with a tax specialist, such as a CPA.

Data and Assumptions

Personal Information

	Client	Spouse
First name	John	Martha
Middle name		
Last name	Smith	Smith
Birth date	07/23/1971	11/04/1973
Gender	Male	Female
Marital status		Married

Education Goals

Student Name	Years Until Need	Years Of Need	Annual Cost	School Name	Percent to Fund
Adam	18	4	$11,004	U. of Georgia	100%

Current Resources

Current education assets	$0
Current annual education funding	$1,200
Number of years to continue funding	18
Rate current funding increases annually	2.00%
Current assets/funding annual rate of return (before tax)	8.00%
Other future amount expected	$0
Year other future amount will be available	2007

General Assumptions

Education inflation rate	5.50%
Effective income tax rate (state and federal)	25.00%
Fund **To** the beginning of your first education goal or **Through** the end of your last education goal	Through
Tax treatment of education assets	Tax Free

Proposed Additional Funding

Additional monthly funding	$125
Number of months for additional funding	252
Rate additional funding increases annually	0.00%
Additional funding annual rate of return (before tax)	8.00%

Do You Know Someone Else Who Could Benefit From This Service?

Name	Relationship	Phone

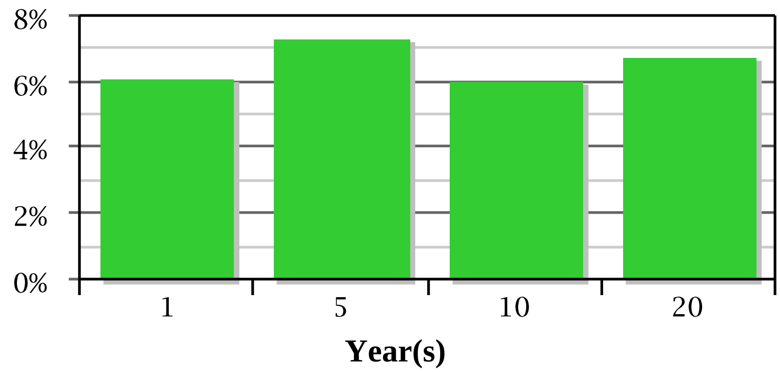
Education Inflation

For the past two decades, costs associated with an education (tuition, room and board, etc.) have increased significantly faster than the overall rate of inflation. To better understand the impact of education inflation, please review the historical information below.

The chart to the right illustrates the average historical education inflation rates for last year, the last 5 years, the last 10 years, and the last 20 years.

The average education inflation rate for the last 20 years was 6.69%*. A $1,000 education expense incurred at the beginning of 1987 would cost $3,653 at the end of 2006.

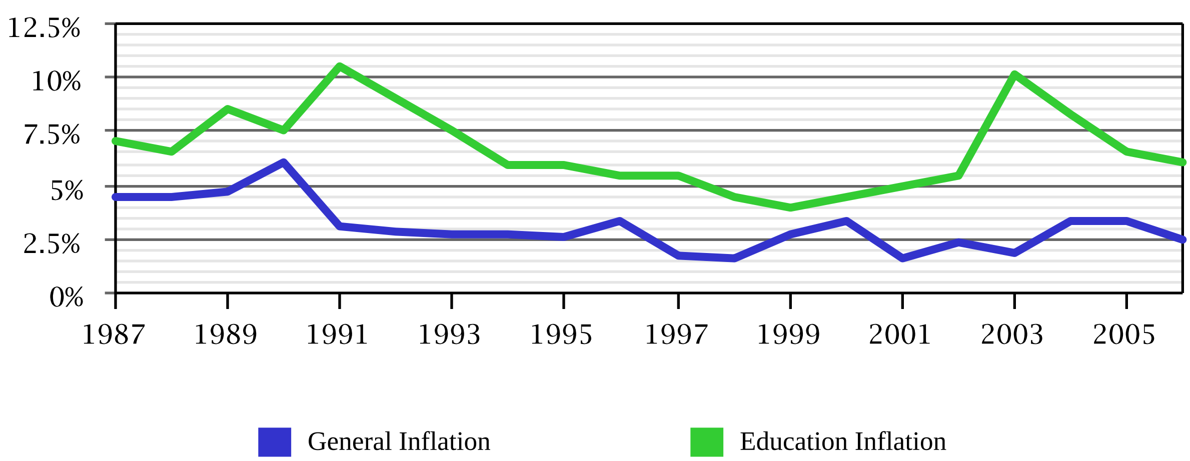
Historical Average Education Inflation Rates



Education costs have outpaced inflation over the past 20 years.

Education inflation rates have varied from year to year and will likely continue to vary in the future. For analysis purposes, you should use an average assumed education inflation rate to compensate for annual variations.

*The average education inflation rate was determined by averaging tuition costs at public and private institutions. Remember that historical rates are no guarantee of future rates.

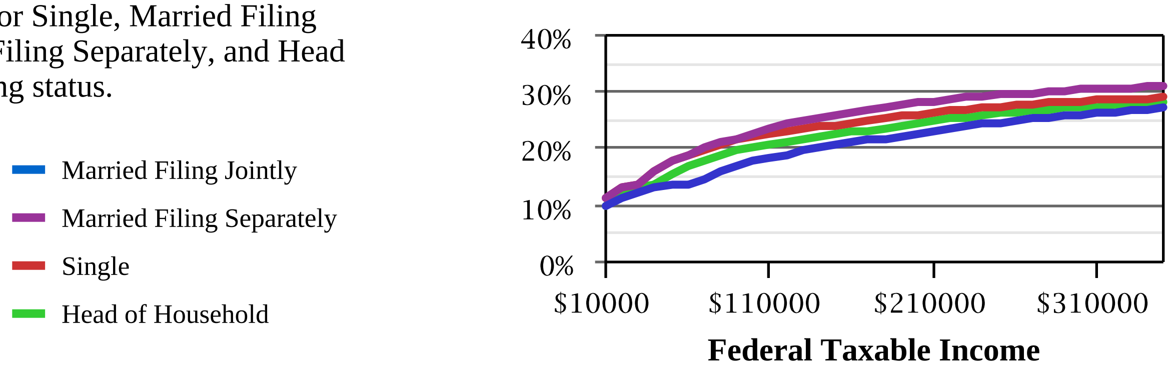


Sources: Education Inflation: The College Board Annual Survey of Colleges, 2006. General Inflation: U.S. Department of Labor, Bureau of Labor Statistics, Washington D.C., 2007.

Federal Income Tax

Average tax rates are used in this analysis to estimate future taxes payable on income from assets and other sources. By taxing future income, the future after-tax amount available to spend can be more correctly estimated.

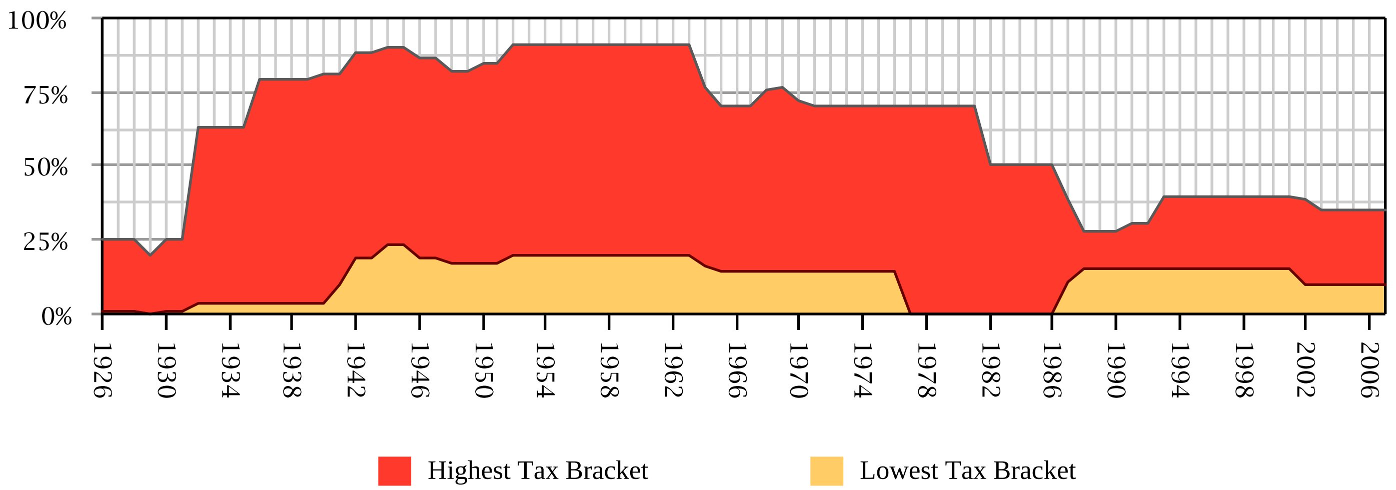
The chart to the right illustrates the average federal tax rates for Single, Married Filing Jointly, Married Filing Separately, and Head of Household filing status.



Historical Federal Income Tax Brackets

Federal tax rates have varied widely in the past. It is important to take this into consideration as you select an assumed effective income tax rate for planning purposes that may span several years. See the graph below to review past variations in the highest and lowest federal income tax brackets.

The graph below illustrates historical high and low federal income tax rates. Exemptions, deductions, and state and local taxes are not taken into account when illustrating marginal rates. Your actual tax rates may vary from those shown on the graph. Remember that historical rates are not a guarantee of future rates.



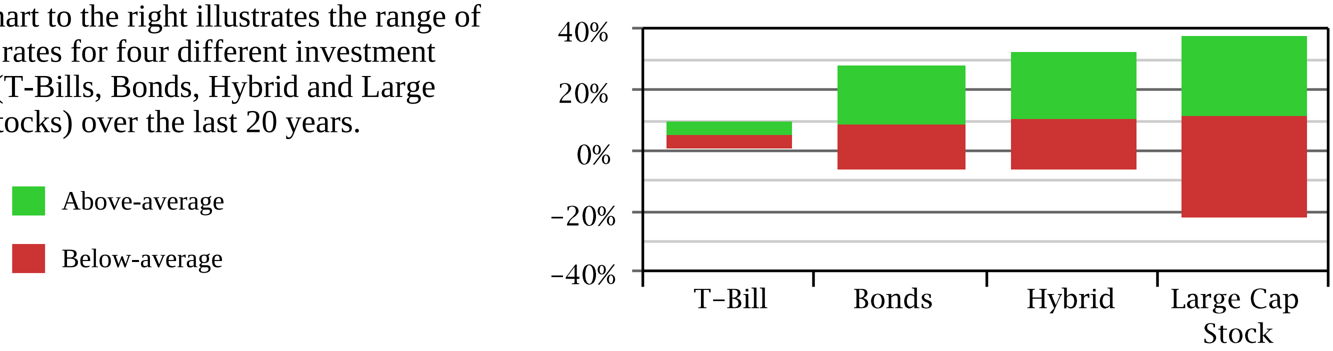
Sources: Historical Federal Tax Rates 2007. U.S. Department of Treasury, Internal Revenue Service, Statistics of Income, Individual Income Tax Returns (2007).

Risk and Return Education Funding

The rates of return that are used to project your assets will have a significant impact on your planning results. Remember loss of principal is a risk with any investment and that historical return rates are not a guarantee of future performance.

The chart to the right illustrates the range of return rates for four different investment types (T-Bills, Bonds, Hybrid and Large Cap Stocks) over the last 20 years.

Actual Return Rates for Last 20 Years (1987 - 2006)



Risk of Loss of Principal

The greater the potential return on an investment, the greater the risk of loss of principal. U.S. government obligations, which are backed by the full faith and credit of the U.S. government as to the timely payment of principal and interest, are generally the safest investment because the purchaser should receive the entire principal plus interest when the bonds are bought at issue and held to maturity. Therefore, U.S. government obligations are a benchmark for investment risk. Examples of U.S. government obligations are: Treasury Notes, T-bonds, T-bills, and U.S. Savings Bonds. While U.S. government obligations offer credit safety, higher returns have historically been realized from other investments, including corporate bonds and equities, which also have been more volatile than U.S. government obligations. The above information illustrates this point. Keep in mind, past performance is not a guarantee of future results.

Historical Returns: Unpredictability of Future Performance

Risk of loss of principal must be considered along with other risks such as: inflationary risk (loss of purchasing power due to an investment's return being lower than the rate of inflation), timing risk (selling at the wrong time), market risk (price fluctuations due to price volatility in overall market), credit risk (risk of default of bond issue), liquidity risk (inability to liquidate or readily sell a security), etc. An investor should evaluate the level of risk of each investment and his/her level of comfort with such risks.

Treasury Bill performance data is based on the average yield of a one year T-Bill as published in the Federal Reserve Bulletin, years 1961-1981, and in Frontier Analytics' FactMaster, CITI 1 yr. Treasury Benchmark, 1982-2007.
Long-Term Corporate Bond performance is calculated from the yield and price index from bonds with maturities of ten years or more as published in the Federal Reserve Bulletin, years 1961-1981, and in Frontier Analytics' FactMaster, CITI Corp 10+ yr., 1982-2007.
Large Company Stock performance is calculated based on the S&P 500 Stock Index and yield as published in the Federal Reserve Bulletin, years 1961-1981, and in Frontier Analytics' FactMaster, S&P 500 Composite, 1982-2007. The S&P 500 is an unmanaged index generally considered representative of the large-cap U.S. stock market.
Hybrid is composed of 50 percent Long-Term Corporate Bond and 50 percent Large Company Stock.

The example illustrated is hypothetical and does not represent a specific investment. An investment cannot be made directly into an index. The performance of any index is not indicative of the performance of a particular investment and does not take into account the effects of inflation, taxes or the fees and expenses associated with investing. This example reflects reinvestment of all dividends and income. Actual investor results will vary.

Notes