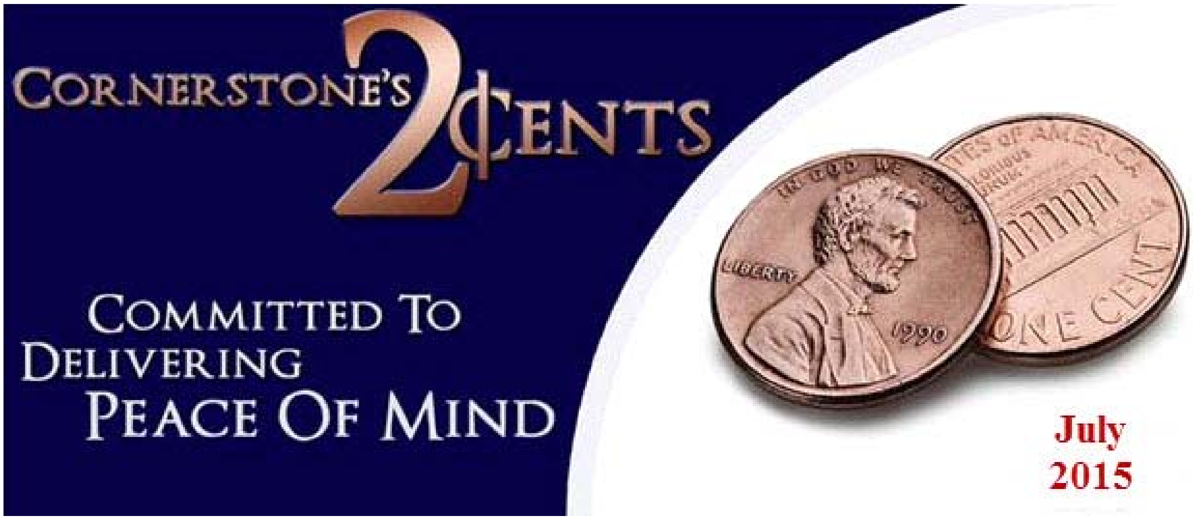

Dear Clients & Friends of Cornerstone:

We all know that saving for our children's or grandchildren's college education is important, but many of us start saving without a firm goal or plan in mind. This month's 2cents article outlines six points to consider before you set up that college savings plan. And if you have already started saving, these tips will help you determine if you are saving enough…or too much.

If you would like to refer back to any previous newsletters we have published, you can find them on our website. Please be sure to visit www.ccadvisors.com.

- Cornerstone Capital Advisors

Saving for college? These 6 mistakes can cost you!

by Kathryn Flynn
Posted: 2015-07-07

1. Your goal is too vague

The best time to start saving for college is as early as possible, but most families have no idea where their newborn baby will attend college in 18 years. Because of this, parents often start a college fund with modest contributions of $25-100 a month – with no clear end goal in mind.

While this is a great way to get into the habit of saving, at some point parents need to focus on establishing a more solid plan. That doesn't mean you need to decide on a particular school just yet, but maybe it's time to think about how much you want to (and can afford to) pay for. That could mean planning to cover tuition for public or private, or 2-year or 4-year college, or simply giving a specific dollar amount.

Another common mistake parents make is shying away from saving because of sticker shock. If the total cost of a school seems out of reach, don't worry! After grants and scholarships, families rarely end up paying the "sticker" price of colleges. A more realistic goal is to aim to save 25%, and find other sources to make up the difference. What's more, saving too much can cost you if you end up having to take a non-qualified withdrawal from a 529 plan. When the money you take from your 529 plan is used for something other thanqualified higher education expenses you'll lose your tax benefits and also get stuck paying a 10% penalty on the earnings portion of the withdrawal.

2. You’re not using the right tool

It’s great that you’ve been putting money away for college, but have you given much thought to where you’re keeping it? The tool you use to save can make a big difference in your ending balance when it’s time for college. For example, although your mutual fund may offer a great return, you’ll have to pay annual income taxes and capital gains taxes when you sell your shares. Another thing to consider is the possible effect your savings can have on financial aid. While the value of your Roth IRA won’t be counted as an asset on the Free Application for Federal Student Aid (FAFSA), the amount you withdraw to pay for college will be counted as student income on the following year’s FAFSA. Student income is assessed at 50% - meaning $5,000 of student income will reduce a student’s aid eligibility by $2,500.

A solution for each of these common problems is to use a 529 college savings plan. Your earnings will grow tax-free and won’t be taxed when you withdraw as long as the funds are spent toward qualified higher education expenses. What’s more, the value of a parent- or dependent student owned 529 account has a minimal effect on financial aid eligibility. The value of the account is considered a parental asset on the FAFSA, which means the maximum effect on aid eligibility is 5.64% of its value (so $5,000 in a 529 plan would only reduce aid eligibility by $282). But the real advantage is that nothing will need to be reported on the FAFSA when the funds are withdrawn to pay for college.

3. You assume you won’t get financial aid

The federal government awards over $150 billion in federal grants, loans and work-study funds each year to millions of students. And that’s not even including additional financial aid provided by some schools. Yet higher-earning families often won’t even apply for aid because they assume they won’t qualify.

Financial aid offices expect families to be able to use up to 47% of their after-tax income to pay for college. But income isn’t the only factor used in the equation. Schools will also consider things like the type and cost of school the student plans to attend, any non-retirement assets owned and the number of dependent children in the family. In fact, a college student who has a brother in college will be eligible for more aid than a student who is an only child, even if their household income is exactly the same. That’s because their Expected Family Contribution (EFC) will be split evenly between children in the family, increasing each child’s eligibility for aid. Lower EFC = more financial aid.

4. You’re not considering scholarships

So maybe your son or daughter isn’t a star athlete or academic genius, but that doesn’t mean they can’t find a scholarship! They key to finding one is to develop a strategy and keep applying all year long. Does your place of employment offer awards? Is your child involved in any extracurricular activities? These are all potential sources for scholarships. And don’t assume that you make too much money. According to Sallie Mae’s How America Pays for College 2014report, 38 percent of scholarships were awarded to families with a household income above $100,000.

So what happens to the money you’ve been saving in a 529 plan if your child gets a free ride to college? Well, you can save the money for graduate school, can change the beneficiary to another qualifying family member who will attend college, or take a non-qualified withdrawal. When a student receives a scholarship, non-qualified 529 plan withdrawals up to the amount of the tax-free award will avoid the 10% penalty tax. However, the earnings portion of the withdrawal will be subject to income tax.

5. You double-dipped your benefits

You can claim the American Opportunity Tax Credit (AOTC) while taking advantage of the tax benefits of 529 plans, but you need to make sure not to double-dip. For example, the AOTC allows a maximum credit of $2,500 on $4,000 in eligible expenses. So if you have $10,000 in qualified expenses to pay for, you can use $4,000 to generate the AOTC and take a tax-free withdrawal of $6,000 from your 529 plan. If you end up taking the full $10,000 from your 529 plan you’ll end up with a $4,000 non-qualified withdrawal, which will trigger income tax as well as a 10% penalty tax on the earnings portion.

6. Your plan needs some attention

If you’ve been saving for college for the last few years, when’s the last time you evaluated your strategy? Have you measured your progress toward your goal to make sure you’re on track? Are you still happy with the performance and management of your investments? If you’re not currently using a 529 plan - does it make sense to start?

If you’ve been putting money away in a regular savings account you might be able to get a tax break by depositing the funds into a 529 account. Currently,34 states, including Washington D.C. offer residents a tax deduction or credit for 529 plan contributions. While most of these tax benefits are strictly for residents who use their home state's 529 plan, six states will reward you for using any 529 plan. For example, married couples that are residents of Arizona will receive a tax deduction for contributions up to $4,000 per year.

529 plans also allow you to roll your funds into another plan once in any 12-month period, but before you switch plans be aware that if you did receive any state tax benefits you might be subject to pay “recapture” tax. Also remember that a student can attend almost any college, private or public, in any state no matter which 529 college savings plan they use.