think First

Funding A Child's Education

The Value of Education

Most parents want their children to go to college. A college education can be an enriching experience, enhancing students' knowledge and making them more well-rounded individuals. Moreover, a college degree can offer the potential of a better career, a larger income and a higher standard of living. In fact, according to the College Board, college graduates earn over 60% more on average than high school graduates. Over the course of a lifetime, a college graduate's total income can exceed that of a high school graduate by more than $800,000. But before a child heads off to campus, parents must come to grips with a stark reality — sending a child to college will be expensive.

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Rising Costs of College

A recent study by the College Board found that for 2007-2008, tuition, fees, and room and board averaged $13,589 per year at four-year public colleges and $32,307 per year at four-year private colleges. And unfortunately, the costs appear to be headed upward. The same study showed that in just one year, tuition and fees rose 6.3% at private colleges, and 6.6% at public colleges. While these figures may seem startling, it's important to note that college, for most Americans, remains accessible, especially in light of the financial aid, loans, tax benefits and investment opportunities that are available. But in order to ensure that your child can afford to attend college, it's vital to establish a well thought-out investment program.

It's Never Too Soon To Start Saving

Because the financial challenge of paying for college is so great, it's best to start building a fund early. If you start saving when your child is still a toddler, you can choose to be somewhat more aggressive and also put the power of compounding on your side. Mutual funds, annuities and cash value life insurance have traditionally served as college funding vehicles. Newer products offering unique tax advantages, such as Education Savings Accounts and 529 Plans, have also emerged as popular investment vehicles for individuals saving for college. To begin your investment program, it's best to sit down with a professional to decide what products are best for you. Based on your personal financial situation, risk tolerance and specific needs, your financial services representative can recommend an investment mix to help you reach your goals.

Take Advantage of Systematic Investing

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Many people find that setting aside a fixed amount of money on a regular basis is a habit that pays off when saving for college. First Investors offers convenient systematic investment programs that electronically transfer a fixed amount periodically from your bank account or paycheck into an investment account, such as a mutual fund. The regular investment of even small amounts into your account can allow its value to become quite significant over time. However, systematic investing cannot guarantee a profit nor protect against a loss in declining markets. Since this strategy depends on continuous investment regardless of fluctuating price levels, you should consider your ability to continue making investments through periods of low price levels.

Consider Tax-Advantaged Strategies

A smart way to grow assets for college is to place a portion of your portfolio into tax-advantaged vehicles. Fortunately, there are several ways to benefit from tax advantages:

Education Savings Accounts—Formerly known as Education IRAs, Education Savings Accounts (ESAs) offer the potential for tax-deferred growth and tax-free withdrawals. ESAs offer a great deal of

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flexibility because money in an ESA can be used well before college. In fact, money in an ESA can be withdrawn tax-free as early as kindergarten to pay for a wide range of qualified expenses such as books, uniforms and school equipment. Plus, the individual who opens the account maintains direct control over the underlying investments. There is a yearly contribution limit of $2,000 and income limitations may leave some people unable to participate, but the flexibility of an ESA makes it a great choice for many people concerned about the rising costs of education.

529 Plans* –These state-sponsored investment vehicles are among the most attractive college planning tools on the market. Individuals can open a 529 plan account for any beneficiary, including themselves, and enjoy tax-deferred growth and tax-free withdrawals for qualified higher education expenses such as tuition, books and room and board at any accredited institution. There are no income limitations and individuals may use five one-year gift credits at the same time, meaning an individual can make a contribution of $55,000 once every five years free from gift tax implications.

The person opening the account chooses from a range of investment options, including an "age-based" option that automatically changes the asset allocation as the child nears college age. The contribution limits vary from state to state, but in some cases, the account balance is allowed to reach more than $300,000 before contributions are no longer allowed. And even then, earnings in the account will continue to grow tax-free.

UGMA/UTMA–Under the *Uniform Gifts to Minors Act* (UGMA) or *Uniform Transfers to Minors Act* (UTMA) custodial accounts may be opened for the benefit of minors. This arrangement shifts all or part of the investment earnings (the amount depends upon the child's age and the amount of earnings) to the child's tax rate, which is usually less than that of the parents.

Evaluate Your Options

To supplement your college funding programs, you can consider several of the following sources:

Borrowing–Federal and state loan programs with below-market interest rates are available to qualified borrowers. In addition, you may want to take advantage of your own private sources of lower cost loans. Many 401(k) plans offer loan provisions, as do most cash value life insurance policies. Of course, taking a loan against these accounts hinders their growth, and might have other ramifications.

Financial Aid–Federal and state government grants are generally limited to lower and moderate income families. In addition, many colleges offer a variety of financial aid programs to attract top students such as merit scholarships, talent grants, honor scholarships, athletic scholarships and many others. Also, financial aid is available from private organizations such as employers, religious denominations, clubs and unions. Most high school college advisors can provide additional details.

Grandparents–Most grandparents would like to leave a lasting legacy to their grandchildren. By making contributions to their grandchildren's college fund, especially a 529 plan account, they can have the satisfaction of helping someone they love while avoiding costly gift taxes, as well as potentially reducing estate taxes.

Your Child–By contributing to their own college fund, children can learn a valuable lesson about the responsibilities of saving and investing. They can make small yet steady contributions from the money they receive from allowances, gifts and part-time and summer jobs. Once they're on campus, students can look into paid internships which will not only help defray college costs, but also give them valuable real-world experience in their chosen field.

The First Step

The road to college starts with a discussion with your First Investors Financial Services Representative. He or she can give you a realistic estimate of the cost of college and provide a personalized College Needs Analysis. Your financial services representative can discuss appropriate products to help you meet your goals. Together, you can design a college funding strategy tailored to your specific needs. Even if you have established a college funding strategy, you'll want to review it annually with your representative to ensure that it's in synch with your current needs and investment time horizon.

* *529 Plans are subject to certain risks, charges and expenses that must be considered when selecting a college savings plan. The law exempting qualified withdrawals from federal income tax expires on December 31, 2010, unless extended by Congress prior to this date.*

Neither First Investors nor its representatives offer tax, legal or estate planning services. Clients should contact their personal tax and legal advisers for any advice about tax-related investment decisions, estate planning or gifting.

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Financial Services With A Personal Touch

First Investors has been serving the needs of investors since 1930. Through the Great Depression, World War II, numerous recessions and bull and bear markets alike, we have remained committed to our mission—helping our clients reach their financial goals. Today, we offer a wide range of financial products and services, including mutual funds, annuities, and life insurance. We pride ourselves on delivering financial services with a "personal touch." Your First Investors Financial Services Representative is a licensed professional who will take the time to learn about your current financial situation and future goals in order to assist you with your financial needs.

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