financial focus

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FINANCIAL AID FOR NEW STUDENTS AND THEIR PARENTS

by Erin Baehr, CFP®, EA Shawnee on Delaware, PA

As a parent, you know sending your son or daughter to college will be an educational experience. But you might not have expected how much *you* would have to learn. The language of financial aid can be perplexing, to say the least. For example, the *FAFSA* determines your *EFC* (reported on the *SAR*), which is compared with the *COA*.

Confused? You're not alone. Here are some basics to help you navigate the intricacies of the process.

FAFSA stands for *Free Application for Federal Student Aid*. It's the official form needed to apply for any kind of federal aid. In addition to the FAFSA, more than 250 private colleges also require the College Scholarship Service (*CSS*) *Profile*, which calculates the *Expected Family Contribution* (EFC) somewhat differently. Many private schools have their own aid forms as well.

Information from the FAFSA is used to compute the EFC, the amount you are expected to pay toward the cost of the student's education. Once your FAFSA is processed, a *Student Aid Report* (SAR) is provided to you detailing your EFC. Be sure to review this report for accuracy.

The FAFSA uses information from the prior-year tax returns of both parents and student. If your tax returns are not completed in time, don't worry. You can estimate the numbers and amend them later. The form also asks for amounts of untaxed income (such as disability payments or child support), adds back contributions made to retirement accounts, and requires current values of assets such as bank accounts and investments.

Fortunately, the FAFSA application continues to be simplified. The web-based form already identifies some sections that certain applicants can skip. And beginning in January 2010, some students will be able to retrieve the needed tax information from IRS records. Efforts are underway to expand this opportunity to all students. Upcoming legislation would remove 26 questions from the FAFSA, leaving only questions that ask for information applicants must already provide to the IRS.

The FAFSA can be filed online at www.fafsa.ed.gov and should be completed in January of the student's senior year of high school or shortly thereafter. You may need to allow a few days to apply for personal identification numbers (PINs) for both you and the student at www.pin.ed.gov.

Every student should submit a FAFSA, regardless of the family's income. Some parents wonder, "Don't we make too much money to get any aid? Why should we bother?" Actually, programs are available for every student. The most common is the Stafford loan. In addition, many colleges require the FAFSA for the student to qualify for merit awards and scholarships. Unless you enjoy spending money when you don't have to, it's too important a form to skip.

Two types of financial aid are awarded: need-based and merit-based. *Merit-based financial aid* normally

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THREE NEW TAX CREDITS

by Kenneth F. Robinson, JD, CFP® Cleveland, OH

In 2009, the American Recovery and Reinvestment Act created more than 30 tax breaks that will affect millions of individuals. These tax law changes include three new or improved tax credits for 2009 and 2010.

Making Work Pay Credit

This credit provides up to $400 per employed or self-employed individual ($800 for married couples filing jointly). The credit is figured as 6.2% of earned income and begins to phase out with modified adjusted gross income (AGI) of $75,000 ($150,000 for couples filing jointly). Taxpayers who are claimed as deductions on someone else's return are not eligible.

IRS implemented this credit partially by changing the federal income tax withholding tables. Withholding was reduced, increasing take-home pay. Unfortunately, this also means that certain taxpayers—such as pension recipients, those with more than one job, or married taxpayers who are in a high tax bracket because of their combined income—may find that they haven't had enough withheld from their pay to cover their tax liability. Taxpayers who find they've underpaid their federal income tax during the year may want to adjust their withholding in 2010 so they'll have enough tax withheld.

Residential Energy Credits

Credits for energy efficiency improvements to homes have proven very popular with taxpayers. For up to $5,000 that you spend over the course of 2009 and 2010 (combined), you can take a credit of 30% (up to $1,500) for improvements such as insulation, energy-efficient windows or doors, certain roofs, and energy-efficient heating and air conditioning. Improvements must meet energy efficiency standards, but taxpayers are generally permitted to rely on the manufacturer's statement of energy efficiency.

American Opportunity Tax Credit

This is a temporary improvement to the Hope Credit, which offsets some of the cost of higher education. The American Opportunity Tax Credit may be used for expenses in any of the first four years of college (up from two for the Hope Credit). Qualifying expenses are liberalized to allow not just tuition and mandatory fees but required course materials as well. And the amount is increased, from a maximum of $1,800 out of the first $2,400 in expenses under the Hope Credit to $2,000 out of the first $2,000 in expenses, plus $500 out of the next $2,000 of expenses under the new credit. Income phaseouts begin with $80,000 of modified AGI ($160,000 for joint filers), also substantially higher than under the Hope Credit.

Although not a tax credit, there's another significant benefit for education. For 2009 and 2010, distributions from Section 529 plans can be used to buy computers, peripheral equipment, or Internet access for the student *or his or her family*.

As always with changes to tax law, it's impossible to know how long these tax breaks will last. And there's a lot more that's changed for this tax season and the next. A careful review of your situation and the tax laws will help you take the best advantage of changes, whether temporary or permanent, that can reduce your federal income tax bill. ■ ■ ■

YOU ARE WEALTHIER THAN YOU THINK

by Kathleen Rehl, PhD, CFP® Land O'Lakes, FL

We're living in tough economic times. The steep cost of gasoline, high grocery bills, depressed stock prices, concerns about inflation, rising unemployment, low real estate values, depressed savings interest rates, high credit card rates, and uncertain economic reports weigh heavily on many of us.

But wait. Let's put our monetary concerns in perspective. Here are some noteworthy facts—perhaps you've seen them before.

Did you enjoy a good meal in the past 24 hours? Do you have a place to sleep tonight? Are you wearing clothes? Answer yes, and you are wealthier than 75% of all humanity.

Got money in the bank? A few coins in your pockets? You're in the top 8% of our earth's wealthy folks.

Own a house? Invest in mutual funds, stocks, bonds, and CDs? Now you've moved into the elite top range of the World's Wealthiest list.

There's more. If you attend a church, synagogue, or other place of worship without fear of harassment, arrest, torture, or death, you are more blessed than about three billion other people. Did you wake up healthy today? You're better off than the million who will not survive this week.

When we step back and acknowledge the abundance in our lives, we recognize we are indeed wealthy. We each experience riches in areas that bring us real joy—family, friends, health, home, religious community, life purpose, and more. We are certainly very well off when we measure what's really important, along with our financial assets.

When you keep it all in perspective, it's easy to enjoy your own special wealth.

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is given to students in the form of scholarships for excellence in academics, athletics, music, leadership, and the like.

Need-based financial aid is awarded based on a determination of financial need. It is available from federal, state, and college grants, scholarships, loans, and work study. The college financial aid office calculates need-based aid by subtracting the student's EFC from the *Cost of Attendance* (COA) for that particular school. The college determines the COA, which includes tuition, room and board, books and supplies, personal expenses, and transportation.

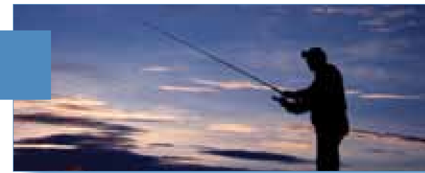
Some colleges award enough aid to bridge the gap between the student's EFC and the school's COA. Others provide only a percentage, so the actual contribution required by the family will be more than the EFC. It can be helpful to know the percentage of need typically met by the schools your child is considering, as well as finding out which schools offer merit aid and which do not.

Find out early what they will likely require you to pay. This will give you more time to plan realistically, and it will help your son or daughter select a college or university that is affordable for the family.

Sometime in early spring (depending on the school), you will receive a financial aid package from each college that will spell out how much need-based and merit-based aid your child will receive, should he or she decide to attend that institution. These aid packages can vary widely. For example, public universities award mostly loans, whereas private schools have more latitude to offer grants. Despite the sticker price, you may find that a private school education can end up costing about the same as a state school, possibly even less.

The most serious mistake many families make is failing to apply for financial aid. Families with incomes in excess of $100,000 per year are frequently awarded aid. The more costly the school, the more likely the COA will exceed your EFC, qualifying your student for need-based aid. Many opportunities for aid not based on need, such as loans or campus work study, are often available.

If you're a family with a college-bound teen, find out as much as you can, as early as you can, so that you fully understand the process and can be as prepared as possible. The more you know, the less you will ultimately pay for your child's college education.



HOW FISCAL FITNESS CAN IMPROVE YOUR PHYSICAL FITNESS

by Carol Friedhoff, MS, CFP® Dublin, OH

What's the biggest worry in our lives? The number-one answer is money. And right after money, we worry about relationships and health.

Guess what? Money impacts both relationships and health. When you are under financial stress it's easy to begin to feel negative—defeated, detached, fearful, and in conflict.

In contrast, being in control of your finances can reduce embarrassment, shame, and guilt, and boost energy as well as your emotional and physical fitness.

Here are some steps that can help you both maximize your money and also improve your well-being by becoming financially prepared and fiscally fit.

Step 1: Enjoy life by being true to yourself

Doing what you like is *freedom*. Liking what you do is *happiness*. What if you could do both? You can.

- Start by identifying what you enjoy. What is your passion?
- Next, list ten things you are really good at—your own strong points—that you also enjoy.
- Finally, envision your life 20 to 40 years in the future. What do you picture yourself doing? What will your life be like?

Given your passions and your strengths, how are you going to achieve your vision? Use the answer to this question to drive your career and ultimately your income.

It's easier to have a satisfying life if you like what you do to earn your money. With a fulfilling daily life, it may no longer seem important to spend money on things you sought out because you "deserved it" for putting up with a job you didn't enjoy. Everyday happiness can be a crucial key to physical well-being.

Step 2: Pay yourself first

How much money do you need to achieve your dreams? Where and how can you find it?

Start putting more money into your savings. Pay yourself first by saving at least 10% of your earnings. If you need some extra encouragement to spend less, list the three most important items you included in your vision and how much you think they will cost. What adjustments in your life are you willing to make to build up the savings you need to have those three things? If you are not sure where your money is going, try keeping a journal. Manage credit and debt to improve your credit rating and reduce your interest expenses. Limit the number of credit cards you own, and only charge the amount you can afford to pay each month. You will reduce or eliminate interest expenses, improve your credit score, and lower the interest rate you will be charged when you want to borrow money. As a result, you'll feel less overwhelmed. Get your family involved. Family communications will be more harmonious if everyone is involved in the plan (singing from the same hymn book, so to speak).

Step 3: Create a safety net

There are two ways to be prepared for the unexpected. One is to have enough money saved to pay for the unforeseen. It's critical to establish an emergency fund, equal to about three to six months of expenses. Review your budget and determine how much you can contribute to your fund each month.

The second way is to have the right amount and kind of insurance. Common types of insurance to consider are life, health, disability, property, liability, and long-term care.

For instance, if there are people who depend on you and your income, life insurance can be used to provide for them in the event of your premature death. For most people, term insurance is the most cost effective. Comparison shopping for insurance can help reduce costs (and increase your satisfaction with the results).

Having enough of the right kinds of insurance and an adequate emergency fund can help you feel you aren't just one accident away from financial disaster. How reassuring!

Step 4: Grow your savings

As you accumulate your savings, you will want them to grow or at least outpace inflation. This means investing. Varying risks are associated with different investments. Just like sowing seeds, you can diversify your crop (and reduce your risk of failure) by selecting a mix of assets (cash, real estate, bonds, or stock) based on when they will be needed.

In other words, invest with goals in mind and with a plan to reach those goals. When you invest purposefully, rather than trying to guess what's about to be hot, you can be more confident about the outcome and start to relax.

Making this kind of conscious, purposeful progress on both your vision and your financial goals can help reduce your stress and leave you with more energy. This in turn will automatically enhance your physical well-being and make it easier to be healthy and fit.