**College Savings Report Explanation**

**Real World Personal Finance Software**

**(503) 309-1369** [support@toolsformoney.com](mailto:support@toolsformoney.com) <http://www.toolsformoney.com/>

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Overview of the College Planning Reports

This text is to help you understand the overall concepts, and the technical details, of the following college plan analysis reports.

Careful long-term planning is needed these days to prepare for the extremely expensive college adventure.

This analysis will help you determine how much you'll need to invest, both lump sum, and/or monthly, to reach a future college funding need, assuming out-of-pocket costs and various time-value-of-money input. In English, it estimates how much it will cost to send someone to college, and how much one needs to save now to pay for it later.

There are a few ways to invest for future college expenses. Back in the good 'ol days, there were things called UTMAs and UGMAs that had tax benefits. These days, hardly anyone uses them anymore because a whole new Wall Street-based financial services industry evolved to replace them. This is the 529 College Savings Plan industry.

The one and only big advantage touted by 529 plans is the "awesome tax deferral," which basically operates similarly to a Roth IRA (but you may also get a state tax deduction if you play the game right). Basically, annual taxable events like dividends, are not taxed, nor are amounts withdrawn and spent for college expenses.

But the math bottom line shows that all you have to do is get between 1% to 2% more average annual investment return in a non-529 do-it-yourself discount brokerage account, and you'll probably end up having more spendable money when needed (which is the point of all of this). Yes, this is even after these awesome 529 plan tax breaks.

The lower market returns are in general, the lower this difference is. If the stock markets average less than 6% annually, then this difference (between 529 & DIY) is less than 1%.

So the bottom line is that with low investment returns, the value of 529 plans are mostly negated. The math proves you'll need to realize an annual average of over 8% to break even with a good DIY investing plan. In other words, if your 529 plan does not average more than 8% annually, then its tax benefits are mostly useless. This is because there are not enough profits to tax, and if there were, the amount of tax is insignificant. Therefore investing yourself in a brokerage account will probably end up letting the student spend more money when the time comes, than even the best 529 plans, after paying its taxes.

529 Plans also suffer from other major problems, like high fees, commissions, and expenses. Which again, with low investment returns and low tax rates, can gobble up from a quarter to almost half of your investment profits. For example, if you only average 5% return, and total fees and expenses are 1%, then ~20% of your returns went for naught.

Then the choice of funding vehicles are severely limited, which makes getting decent returns, with low risk, difficult more than a few years in a row. This is mostly because of lack of access to asset classes needed to diversify the largest risks away.

Then the funding vehicles are usually comprised of those that make Wall Street, and the salespeople that are selling the 529 plan, the most money – not you nor the student.

Then there is little-to-no liquidity in a 529 plan. If an emergency happens, you can't withdraw money without expensive tax penalties.

Then you can only spend the money on "qualified expenses" or you'll lose the tax breaks. Relative to the average student’s budget, these are severely limited, and so it’s one of the biggest overlooked problems. Students can't even spend 529 money on basic necessities, like a computer, Internet connections, or printer, anymore.

One must keep in mind that even though it seems like 529 plans are "good" because they're "sponsored by the state," they are definitely a "Wall Street innovation." So you'll be paying a lot to use them, and then will get receive little-to-no actual benefit – compared to investing yourself intelligently via a non-tax-qualified discount brokerage account.

This analysis is the only way to gauge the true value of 529 vs. Doing-it-yourself, because it uses the only software specifically designed for this purpose. These differences are shown in the reports that follow (mostly in the bottom line numbers).

So when you add this all up, there is usually NO REAL BENEFIT in using 529 savings plans, compared to the lower fees, total control, total liquidity, no restrictions, unlimited asset class and investment options, and "it doesn't matter from a tax-standpoint what the student spends the money on - tuition or beer," because it's all taxed the same (barely anything to tax and then hardly taxed at all these days).

Like the old saying goes, "Just because you can do a thing, does not mean that you should, or you must, do that thing."

### Report Information Explained

The first few rows of information just show what was input into the program.

If there are two reports, then one is probably showing the costs of a public college, and the other the much more expensive private college. Then this may be duplicated to compare 529 with investing yourself. The titles at the top will say which is which.

Where it says, *Total Nominal Costs without Investment Expenses* is where the beef starts. This is just the current year's total costs multiplied by how many years the student is projected to be in college. *With investment expenses,* just adds in projected expenses of either doing-it-yourself, or using a 529 plan. As you can see, total 529 plan expenses are usually several times as much compared with investing yourself, so this is where the rubber meets the road.

The next line shows the projected costs considering that the cost of everything goes up annually (due to generic inflation). Colleges typically have inflation rates two to three times higher than everything else. The main reason for this is that college professors’ think they deserve “rock-star compensation.”

The bolded text, *Inflated Present Value with Investment Expenses* is the "bottom-line." So if the parent and Grandma were sitting with a financial planner, and all Grandma wanted to know was how much to write a check to the financial planner for to fully fund an education, this is these amounts. Note that these amounts are also automatically referenced into the life insurance needs module, to protect from losing a breadwinner.

The text that follows is again just displaying input information – until you get down to where it says *Lump Sum Needed Now to Fund Cash Flow Deficits (PV)*. This and *Monthly* *Payments Needed from Now until College Starts*, are how much more needs to be invested now to fully fund college for the student. This is in addition to what was already input into the college plan software. Note that these two numbers are two different ways of looking at the same thing – so it's not saying that you'll need to add the additional lump sum AND make that much more in monthly payments. It's one or the other, not both.

*Probability of Success Given All Assumptions* is the result of the Monte Carlo "stress test" simulation. Any number less than 70%, and there is significant risk that more money will be needed than what was input into the college plan, for the student to graduate. Numbers under 50% mean much more money will probably need to spent and invested than what's showing. This is all because what was input was a "rosy scenario," meaning your investment returns will probably be lower than what was input, fees and expenses will be higher, and/or total costs will end up being much more than anticipated.

### Projecting the Future

The charts and graphs show both input data, and a future projection of what will probably happen over the life of the college plan. Hopefully, they are self-explanatory.

What you don't want to see are red areas in the graphs – because that shows the college plan running out of money before the student graduates. This is the scenario that this whole college planning forecasting process is trying to avoid.

The most important thing is the overall trend, and if you're going in the right direction or not. The goal is to tweak the input data until no red shows on the charts, and the Monte Carlo simulation results are over 85%.

The solutions to your college planning forecast showing unfavorable results, are to NOT use a 529 plan, use intelligent asset allocation investing strategies (in order to minimize losses when the equity markets go down), reside at home instead of moving away to a more expensive state, and then not spending top-dollar on the very best private “Ivy-league” college.

### Miscellaneous

This report illustrates how values may change over time. Once you go over a year or so, most all projections will be substantially different compared to what was input.

So it's important to run the numbers whenever something changes, or at least annually.

Hopefully, all of the charts and graphs are self-explanatory. If not, then feel free to contact us for more information.

A good measure of the benefit of financial planning and investment management is how your net worth improved over what you would have realized if you never met us, and continued doing what you were doing.